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# Japan Report

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6 MAY 1987

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## POLITICAL AND SOCIOLOGICAL

### NEW LEADERS' LDP LEADERSHIP RACE IN 1987 DISCUSSED

Tokyo SEIKAI ORAI in Japanese Jan 87 pp 20-31

[Discussion between political critics Hisayuki Miyake, Minoru Morita, and Yasuhiro Ikeura]

[Text] Nakasone Is Certain to Depart Before Year's End

Ikeura: Mr Nakasone's extended term will be over this year (1987) and a new administration under a new leader will finally emerge. We have entered a season when the topic of new leaders, e.g., Miyazawa, Takeshita, and Abe, more and more enlivens the mass media. Today we would like to predict who will inherit Nakasone's post and, at the same time, what Mr Nakasone's behavior will be at the time of his departure.

Miyake: According to an LDP executive, the LDP's rules are something like the bylaws of a high school alumni association. Therefore, it is indeed possible that, in an emergency, namely, at the time of expiration of the party leader's term, a further extension could be proposed and approved, if party members agree. Such a possibility, however, appears remote. My impression, after talking to new leaders individually, is that there is no reason at this time to deny the new leaders a chance at being elected party president, unlike the occasion after the last election when the question of the continuation of the party presidency had to be decided at a time when over 300 seats had been secured. Of course, there is no election in sight at present. Nakasone's departure within the year appears, therefore, to be certain. I would say the probability for such an event is 99 percent, since in politics 1 inch ahead is in total darkness. One theory about the timing of the departure is that it will take place after the Venice summit meeting scheduled in June. The theory is based on the difficulty of holding an election for the LDP's presidency in November. It is an inconvenient time that coincides with the finalization of next year's budget. The political change, therefore, should take place earlier.

Although the story cannot be confirmed, Nakasone reportedly said at a party where liquor was served that a true politician should not be bothered by the esthetics of his acts. If the story represents what Nakasone really feels, we may have to revise the impression that we generally associate with him, as

one with a sort of gallantry. That is to say, Nakasone may display unexpected staying power.

Morita: I feel the same way. The circle around Nakasone gives the same impression. The atmosphere within the circle is bullish, a feeling that the only course to be resorted to is a headstrong rush, that, at this late date, reserving energy is unthinkable and should not be attempted.

As to the political outlook, the tax reform bill will be completed, since that is the only choice left. If so, this year's regular session of the Diet will need to be fully extended. It is not a simple bill where the intertwining interests of all the parties are at stake. Stormy scenes may be expected to unfold.

Meanwhile, the Venice summit meeting is to be held in June. Mr Nakasone may hardly have time to worry about what course to take. An early departure in April or May, therefore, seems to be physically impossible. If he is to retire, that would be after the extended regular session of the diet, at the earliest. I think that will be after late July.

By the way, 9-22 are unlucky numbers for Prime Minister Nakasone. The first unlucky occasion was on 22 September 1985, when the G-5 [Group of Five] met. The failures of Nakasone's economic policy were pointed out later. On the same date in 1986, Nakasone performed the great faux pas, the now famous "intellectual level" speech. It is said, therefore, that Nakasone will retire on that date this year. This, of course, is by way of a joke.

Anyway, it is unlikely that Nakasone will voluntarily depart before his terms ends in a display of reserved power. Right now, he is outright bullish. Some say it is not impossible to have another extension of his term, but I think this is unlikely. I am afraid Mr Nakasone's political power may be marred by the tax reform.

#### Tax Reform May Serve As "Hanamichi"

Morita: For the LDP to march forward in unison, there may come a time when Mr Nakasone must implicitly promise a peaceful departure to Vice Prime Minister Kanemaru and other leaders of the party and cabinet, while requesting their help in organizing party cooperation. I feel such a scene will come true, one without which tax reform cannot be carried out. That would provide a "hanamichi" for Mr Nakasone's departure.

It would indeed be a truly appropriate hanamichi for retirement, since a colossal work of tax reform is at stake, one that will remain in effect for 30, 40 years to come.

Ikeura: In my opinion, there will be three politically appropriate times for Nakasone's departure: at the time of the completion of FY87 budget, at the time when the Diet session will be over around 28 or 29 May if not extended, and following the Venice summit meeting to be held on 8, 9, and 10 June.

It is unlikely that Nakasone will depart when work on the budget is completed, for other important bills will still be pending.

The second possible date, the time when the Diet session comes to an end, is not a feasible one, for the summit meeting will be too close at hand, leaving not enough time to select a new party president. Mr Nakasone, naturally, will attend the summit meeting. His departure thus has to be after the summit. Counting a period needed for the election of party president, it has to be in August at the earliest.

Miyake: The Diet session will undoubtedly be extended. Adding the time for the summit meeting, an extension of 2 months or so is quite possible. As a member of the Tax Reform Council, I feel the importance of the task at hand especially keenly. Mr Nakasone is determined to abolish the tax-exempt savings account, including the postal savings account. Mr Nakasone chose the minister of post and telecommunications, Mr Karasawa from his faction, with this mission in mind. Mr Nakasone is grappling with indirect taxation as well, amidst resistance from inside and outside the party. Tax reform thus is a tremendous undertaking for Mr Nakasone, suitable as an adornment of his hanamichi, while he himself may yet suffer considerable blows.

Morita: Members of opposition parties are whispering about a tactic to deal with the tax reform. They plan to fight it in the style of the 1960 struggle against the U.S.-Japan Security Pact. If so, the bill may pass, but the proponent (the prime minister) may fall. The tax reform bill may carry, but a vehement struggle will break out, in the process leading to an unforeseen disaster.

Some of the opposition parties' arguments against tax reform are dubious in character. Everyone is opposed to them. This situation parallels the 1960 anti-security pact struggle. The security pact of 1960 was more favorable than that of 1951. Despite its improved content, however, everyone was against it, frozen by ideology. The situation surrounding the present tax reform is similar. Unyielding opposition is the only means for leaders of the opposition parties and the labor unions to exert their leadership. There is no turning around. There will be no conditional strife with give and take. A campaign of thorough opposition will ensue.

The powers in the LDP appear to be more or less aware of the situation. The LDP, therefore, must be prepared for a considerable extension of the regular session of the Diet. The new leaders appear to be planning a smooth change of administration through tax reform, expecting Mr Nakasone to be gradually weakened in the process.

#### Resemblance to Final Phase of Sato Cabinet

Miyake: The situation of the Nakasone Cabinet now closely resembles that of the final phase of the Sato Cabinet. When Mr Sato was elected for the third time in 1968, the general consensus was that there could not be a fourth term. In the general election of 1969, with the return of Okinawa at stake, the LDP

won 288 seats. In early 1970, Mr Kawashima launched a campaign for a fourth term for Mr Sato. The ground for the move was: it is wonderful to regain a territory by peaceful means. Let Sato remain in charge until the historic event of territorial restoration is complete.

Mr Kaku [Kakuei Tanaka] was for the idea, saying yes, yes. Mr Fukuda agreed on the surface, while inwardly he was annoyed. Takeo Miki alone was openly against. Although a fourth term for Sato was thus achieved, subsequent to that time Mr Sato's leadership became steadily diminished.

As the Kaku-Fuku [Kakuei Tanaka vs. Takeo Fukuda] struggle surfaced, the influence of Mr Sato, who achieved the feat of four terms, was scarcely reflected in the later political scene.

At this point, an error in judgment on the part of Mr Nakasone may invite the worst imaginable situation, just as was the case in the final days of the Sato administration.

Ikeura: After the overwhelming victory of the last election, Mr Nakasone built a system to carry out whatever he wished to do and appeared ready to discharge energy in reserve for the final show. After this, however, nothing good has turned up. Instead, negative material is piling up, such as the "intellectual level" speech or the Fujio problem. The outlook on Nakasone's economic policy remains quite dark. Everything clearly suggests that a transition from the bright to the dark side has taken place. Vice Prime Minister Kanemaru's trial balloon to the effect that Nakasone should continue as pitcher proved to be a balloon losing air, with no buyers.

The climate is thus quite a severe one for Nakasone, as all the LDP elders demand his early retirement. It is possible that Nakasone will continue pitching, but objectively speaking, that would be most difficult.

Miyake: Such a possibility scarcely exists.

As concerns Mr Nakasone's intellectual level speech, he meant it from an educational point of view. It was misinterpreted in the United States, however, as addressing the matter of IQ, the level of intelligence. One reason why it became a big problem was the subsequent expression of regret, an admission of a mistake. No matter what Nakasone does, he becomes the target of criticism. This is a typical condition in which a man who had power and is losing it finds himself.

Conspicuous lately is the phenomenon of types of comment that would better be left unsaid, comments that provide topics for public discussion.

Morita: In my opinion, the group that supports Mr Nakasone is breaking up into three fractions. Due to the mismanagement of the Yasukuni Shrine problem, the nationalistic rightist group that includes Masayuki Fujio and Shizuka Kamei has revolted. Individuals who have promoted the so-called liberal reforms, such as the administrative reform, will lose their ideals as



Mr Nakasone's leadership weakens. Those persons will seek Mr Nakasone's early departure, before he becomes bankrupt, in order to remedy the present situation. As a result, only members willing to sink or swim with Mr Nakasone remain. The environment that surrounds Mr Nakasone at present is incomparably less favorable than that soon after the election.

Miyake: Mr Nakasone stands in a relatively lucky position, in that it is not possible, in the present situation, to focus on a single successor. The LDP president is selected from among members of the Diet, be it through discussion or election. As there are 451 LDP members in the House of Representatives and the House of Councilors, selection through discussion is feasible if one obtains the support of a majority, about 230 members. In reality, however, there are only four candidates for the presidency, including Mr Nakasone. Takeshita, the most powerful among the new leaders aiming at the post-Nakasone vacancy, is sure to be supported at least by 100, having 141 members of the Tanaka faction in the background. Likewise, there are 90 for Miyazawa and 84 for Abe. Numerically speaking, none has at hand a sufficient number of backers to seize the post-Nakasone vacancy, so that cooperation is the only strategy to follow.

This situation is helping even a visibly weakened Mr Nakasone retain sufficient power to avoid being turned into a political corpse.

#### Nakasone Faction Holds Key

Ikeura: Certainly, no faction can obtain alone the chair of the party presidency, so that coalition with other factions becomes necessary. In this case, the Nakasone faction will hold the largest number of votes cast. To summarize the situation, (1) Nakasone cannot continue to be the pitcher, (2) will there be three candidates, or four?--Michio Watanabe is unlikely to be one, leaving three running, and (3) the party elders may move to drag Nakasone down. In the process, Nikaido may rise to the surface; at this point, there may take place a maneuver to narrow the field down to two candidates.

If it comes to casting votes, what will be the outcome? If there are three candidates, no one can naturally obtain a majority of the votes. The moves of the Nakasone faction that holds the key votes cast will attract attention. The faction's moves will be delicate. I don't think a sizable number of votes will be distributed to specific candidates. Well, this will surely be the place to display leadership by a Mr Nakasone who would like to remain politically influential in the future.

Miyake: Mr Nakasone probably will make desperate efforts toward this maneuver. If it fails, his status as the doyen of the LDP will be completely lost.

Morita: That is the sole means of survival for Mr Nakasone. That is, how to utilize the 87 votes that the Nakasone faction holds.

Had Mr Nakasone retained the powerful leadership of yesteryear, it would be perfectly conceivable that he might stay as party president one more term. If this is not so, Mr Nakasone's position will be quite a delicate one. What is important for him is to manage this year's regular session of the Diet with a good amount of energy in reserve. It will be very interesting to see.

Who Holds Advantage, Abe, Takeshita, or Miyazawa?

Ikeura: In the scenario for the coming election of LDP president, the first one to rise his hand will be Abe, who has been a candidate before, followed by Miyazawa. Takeshita will be the last to announce. Takeshita will try to wait until the end for the endorsement of the unified Tanaka faction, while espying the expressions of Tanaka and Nikaido. When it becomes obvious that his wish is not going to be fulfilled, he will announce his candidacy, leading his comrades, namely, the majority of the Tanaka faction, while fully aware that his action may serve to split it. At this point, the elders will, as usual, emerge in an attempt at unification through discussion, hinting at an alternative, such as Nikaido as trump card, with Nakasone continuing as a pitcher, or a Kanemaru-Komoto interim administration. Attention should be paid to Nikaido and Miyazawa. Miyazawa knows that this election for the party presidency is his first and last chance; the elders will navigate toward Miyazawa through discussion. When Miyazawa realizes there is no chance for himself, he may join forces in an attempt to set up an interim presidency for Nikaido. When this happens, Takeshita will be in the worst of trouble, for he would be revolting against an elder brother. This possibility, though, is remote.

Common sense tells us that the first ballot will be among Abe, Miyazawa, and Takeshita. Even with the cooperation of both the Nakasone and the Komoto factions, no one can obtain a majority of votes with the exception of Takeshita. Speculation at present is that, within the Nakasone faction, a considerable number, centering around Michio Watanabe, will exit to support Miyazawa; the next largest block will support Takeshita, leaving a few for Abe. The end result will be that no one gets a majority of votes, Takeshita ranking first, Miyazawa second, and Abe third. The final ballot will be between Takeshita and Miyazawa.

The problem here is the behavior of the Abe faction. Fukuda will request Abe's cooperation with Miyazawa. Past circumstances, however, will make Abe support Takeshita. In the worst case, the Abe faction will face the danger of breaking up. Abe's management of this intrafactional crisis will become the key to the realization of an Abe-Takeshita administration.

Abe's target at present, however, is to place second in the first ballot. Such an outcome would leave the possibility for his turn as the next party president. Either order will do, Takeshita-Abe-Miyazawa or Miyazawa-Abe-Takeshita. If he stays on the final ballot, various possibilities will arise. The presidency after the next, at least, will be assured. One cannot take one's eyes off Abe's moves until the election of party president.

Miyake: Kissinger came to Japan last September and met with various key administration figures, including Prime Minister Nakasone and Finance Minister Miyazawa. Kissinger's aim was to see who would succeed Nakasone. According to a person who met Kissinger before he left Japan, he said the person who would play the most important role in deciding the successor, would be Nakasone himself. Further, as to who is closest to Nakasone at present, Kissinger's analysis was that there was a change in ranking, Takeshita, Abe, and, a little apart, Miyazawa. That is to say, there has been no change in top-ranked Takeshita, while the positions of Abe and Miyazawa were reversed. Isn't this an insightful view?

#### Smiling Takeshita Showed Displeasure

Miyake: Speaking of Takeshita, his nervousness concerning Tanaka is well expressed in the story to the effect that he flared up when he saw the FOCUS picture of Tanaka looking in good shape, or at any rate when he abandoned the usual smiling impression he presents and revealed displeasure when his opinion was asked.

Some say, however, that the scene in the story was completely staged. According to the caption in the magazine, the picture was taken on 3 November as Tanaka emerged from the hospital. It was reported that the picture was not taken surreptitiously, but with the full cooperation of Makiko, the shrewish daughter, who was accompanying Tanaka. The intent to exhibit a healthy Tanaka is obvious. There is another story related to the picture. The windows of the Benz in the picture were completely covered with black filter so that it was impossible to photograph the inside. The full cooperation of the companion would be absolutely necessary in order to obtain such a clear picture. The story sounds too neat, but is likely. At the Tanaka faction's study meeting held on 27 September, Mr Nikaido stated that at an appropriate time, a candidate for the party presidency representing the faction would be picked. Tanaka was reportedly enraged when the mass media reported the matter as a "suggestion of Takeshita's candidacy." This is viewed as part of a rollback operation by the fierce woman, Makkiko.

Mr Kaku is reported to be eagerly practicing wordprocessing, for his aphasia persists. Anyway, he is enthusiastic about coming back. The problem is what the future of the Tanaka faction would be. Would 100 members under Takeshita now be attracted back to the Tanaka faction owing to Mr Kaku's magnetism, or follow Takeshita to the end?

If Nikaido becomes the Tanaka faction's candidate, Takeshita would be faced with the choice between recognizing the candidacy or becoming an independent himself. I think Takeshita would choose to go independent. That would be the natural course of political dynamics. If the Nikaido cabinet were realized, it is inconceivable that the next cabinet would be under Takeshita, who was also a member of the Tanaka faction.

Ikeura: If Mr Kaku appoints Nikaido as the candidate for the post-Nakasone chair, they naturally will have to accept Miyazawa's cooperation, since the

votes under Takeshita cannot be expected. Votes for Nikaido would consist of 40 from the Tanaka faction and 90 from the Miyazawa faction, and the rest would come from a large block of the Nakasone faction and a part of the Komoto faction; at any rate, they cannot hope for a majority vote. They must have "plus-alpha."

Takeshita's case will be like this: Takeshita can expect a majority vote by adding all the votes of the Abe faction plus part of the Nakasone and Komoto factions, respectively, in addition to the 100 votes he commands.

There appears to be no chance for Abe, judging from today's situation, but assuming that were not the case, his chances would improve if he were to be supported fully by Takeshita. A forecast for the election of party presidency, on the premise of all the above, is: (1) Takeshita and Abe can move around relatively nimbly, and (2) Miyazawa cannot initiate any move toward either Takeshita or Abe; the only path toward administrative power is to support Nikaido. From above, the direction toward which political power is heading can be guessed.

Miyake: Miyazawa's pet theory has been to achieve things through discussion. To achieve a stable administration, in Miyazawa's opinion, no unpleasant aftertaste should be left through the process of the party presidency election; an open election should be the last resort. However, there is no clause in the LDP rules that discussion should be held first in the election of a party president. In short, selection of the party president through discussion is an idea of a weak party that cannot win through election. Komoto was exactly in that position earlier. It is my belief that the picture of an Abe-Takeshita coalition is etched firmly in Mr Miyazawa's brain.

An Abe-Takeshita coalition cannot be ignored as long as Shin Kanemaru wields influence over Prime Minister Nakasone and the Tanaka faction as the vice prime minister of the Nakasone administration.

#### Forecast on Abe-Takeshita Coalition Based on a Human Relationship

Ikeura: There is a story relevant to the topic we are discussing. I heard it from a person very close to Kanemaru. At the time of the overwhelming election victory, both Takeshita and Abe wanted to be secretary general. To resolve this, Kanemaru invited them to a restaurant in Shimbashi. Abe arrived first, followed by Takeshita about 20 minutes later. When everyone was present, Kanemaru left the room saying: "While I rest in the next room taking a massage, you two talk it over." As the result of more than 1 hour of talk, Takeshita was to become secretary general, and Abe director of the General Council. When an agreement was reached between these two, Kanemaru reported the result to Nakasone and positions for these two were settled on.

This fact provides an important tip for forecasting the Abe-Takeshita coalition in the future.

Miyake: The story has to be supplemented a little. Kanemaru reportedly spoke to Abe thus: "Mr Abe, if you really want to be secretary general, I will not argue against it. A secretary general, however, may at times have to act as umpire. That is to say, if you are an umpire, you cannot swing a bat. I would like to impress this deeply into your mind so that you may not be able to come a candidate for the party presidency."

Ikeura: Forecasting the election for party president numerically, everyone knows that Takeshita is the one who is in the lead, followed by Miyazawa, while Abe places last. Therefore, when it comes to the run-off ballot between the top two, the moves of third-ranked Abe become very interesting, that is, were he to side with either of those.

Miyake: In any case, of late Takeshita's moves have been eye-catching.

The theory that a series of actions carried out by the Takeshita group were the underlying cause for Kakuei Tanaka's fall, which shortened his political life, is easy to believe when viewed in today's context. For Mr Kaku exactly, Takeshita's presence has been a thorn in the flesh.

#### Key Is Takeshita-Nakasone Unified Front

Morita: The strategies of Miyazawa and Abe basically consist of dependence on somebody else. Miyazawa will obtain Nakasone's support through cooperation. The case is similar to that of Ichiro Kono, who attempted to obtain Ikeda's support. While also dependent on others, Abe's position forces him to take to guerilla tactics.

In contrast with them, Takeshita's is the only player who can take up an independent strategy. The Takeshita and Nakasone factions alone can aim at the seat of political power, by the exercise of an independent strategy; only when they fail, will other factions have a chance.

Miyake: From this point alone, it is unthinkable for Takeshita to defer to Nikaido. Seiroku Kajiyama, Ryutaro Hashimoto, and Keizo Kobuchi all have gathered under Takeshita's tent, knowing well that they might be excommunicated by Mr Kaku. When Takeshita thinks there is a chance to win, he will be a candidate.

As to the speculation that Miyazawa would ride piggy-back on Nikaido, I don't think it is likely. Miyazawa might withdraw after talking it over, but he is not in a position to patiently wait for another chance, since he is only 1 year younger than Nakasone, having been born in 1919.

Ikeura: While there is no possibility of a Nikaido administration, the Nikaido card can be flashed this way or that by the anti-Takeshita group in the Tanaka faction so as to keep hegemony in hand in the post-Nakasone era.

Morita: How about the story of Komoto as the fourth candidate? Is he aiming at the possibility of an interim cabinet before an election?

Miyake: That is only a story with no substance. Komoto is a man of mystery, true to his nickname of "coelocanth." People who meet Komoto all seem to go away with the impression of having met a great person. He would speak to us knowledgeably about international economics but once the topic shifts to domestic politics, he shut off completely. He would say evasively: "We will discuss the topic some other time." Such behavior is really surprising in a man who leads a full-fledged faction.

Ikeura: For the people, a desirable characteristic in a prime minister to be elected will be that he is suited to the present time. What evaluations can the three new leaders expect personally? Mr Miyazawa's reputation seems to have gone up in financial circles for his contributions to the stabilization of the dollar/yen exchange rate over the past several months.

Miyake: The financial world is most at ease with Miyazawa. He does not do anything in a rush, being a man of common sense. Miyazawa himself is lately full of volition. While he is a person not known to be sociable, Miyazawa has been willingly attending even support group meetings. If Miyazawa becomes prime minister, therefore, he will be felt as the most stable personage.

If Takeshita becomes prime minister, there is no telling what kind of administration he will lead.

Morita: That certainly is the case. A clear image is attached to Miyazawa, while Takeshita lacks such an image. Take Takeshita's policies, for example, there are no concrete details there. His mode of political operation is the same way, very hard to grasp. But he is the most powerful individual.

Ikeura: The greatest task for Takeshita will be how to fight the coming unified local election as secretary general. If the LDP ends up with an unsatisfactory result, the name of Takeshita as a candidate for the party presidency will be tarnished. For him, this will be a critical scenario.

Nor are his views on international problems quite clear. He is reputed to be weak as concerns the relationship with the United States. The important task for Takeshita in the future will be how to overcome these problems.

Three Make a Full Person?

Miyake: Takeshita has quite a low appraisal among financial figures in regional cities, as I gather while discussing the new leaders with them. Compared to Miyazawa, an economist fluent in English, and Abe, who is as tall as an occidental, Takeshita is at disadvantage.

Ikeura: I think Abe, the weakest according to LDP dynamics, may make the most comfortable kind of prime minister.

Miyake: He looks vague, but is said to be a very good listener. Besides, he is a magnanimous kind of person and does not look out of place when placed in "tokonoma."

It is an important point for a Japanese-style prime minister to look sufficiently appropriate when placed in tokonoma. Mr Abe, in that sense, may be the most suitable.

Morita: The most important condition to become a prime minister, all in all, is party leadership. Another important factor is to be popular with the public through a quality that gives off some sort of "feeling." Further, political abilities, especially savoir-faire in international problems, are required.

Aside from organizational ability, Nakasone has both popularity and the ability to deal with international problems. This is proof that the reins of government can be held if a prime minister possesses two out of the three requirements. From this point of view, each new leader needs only one condition to maintain political power, e.g., Miyazawa's policy capability, Abe's "feeling," and Takeshita's organizational ability. The final evaluation, therefore, is that whoever may become prime minister, durability cannot be expected.

Miyake: These three together make one prime minister. The new cabinet does not appear to be able to last for long, unless it is a coalition cabinet.

Ikeura: The latest analogy for new leaders goes like this. Takeshita is clover, not much to look at by himself, but pretty in large numbers.

Abe is a lilly, for his graceful figure. The upshot, however, is that its long stem is easily broken.

Miyazawa is a rose. While the rose is fragrant with an international aroma, it has shallow roots.

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JAPANESE GANGS EXTEND THEIR TENTACLES

Kuwait ARAB TIMES in English 14 Jan 87 p 6

[Article by Keith Stafford]

[Text]

SINGAPORE, (Reuter): Peddling drugs in New York, pimping in Duesseldorf, running nightclubs in London — Japanese organised crime is following the example of the country's car companies and electronics firms in penetrating foreign markets.

Some countries do not even know that the Japanese gangsters, known in Tokyo as the Yakuza, have arrived.

But lawyers and police officials attending a seminar here this week on international crime and terrorism said that immensely powerful gangs based in Tokyo and Osaka had spread their tentacles from South Korea, Taiwan and the Philippines to Europe and North and South America.

**International**

"On the surface they look and behave like ordinary Japanese businessmen and many countries in Europe have no perception of the threat," says Barry Rider, chief organised crime investigator for the Commonwealth Secretariat in London.

The Yakuza, who trace their roots to the less reputable of Japan's samurai warriors, have been a major force since they concerned the black market in Japan at the end of World War II and pimped for American occupation troops.

Among their friends they count politicians, policemen and important officials. A survey last year showed 70 percent of the bars in Yokohama, Japan's biggest port, were paying them protection money.

Until the early 1970s they stayed close to home, fighting local feuds to protect their interests and importing drugs from illicit factories in Korea.

But as better educated English-speaking recruits joined their gangs the Yakuza moved on to the international stage, the lawyers said. A strong yen in the early 1970s took Japanese tourists to South-East Asian countries. The Yakuza followed.

The yen is strong again and the tourists are flying farther — to Europe, the United States and Australia.

"They are so integrated with Japanese society that wherever the Japanese go the Yakuza will go," predicted Rider.

Japanese estimates suggest there are now 150,000 Yakuza against only about 2,000 leading members of the Mafia in the United States. The numbers are rising.

**Fraud**

Biggest of the 160-odd Yakuza gangs is the Yamaguchi Gumi.

"It runs 7,000 shops, 5,000 restaurants, 4,500 money-laundering operations, 2,300



bath houses, 2,500 bars, 600 property companies and 400 transport firms," said Rider. "There are not many multinational companies that can boast that."

Ominously, the Yakuza have joined forces with Chinese triad gangs in Hong Kong and Taiwan to ferry illegal money from Hong Kong to Toronto.

This links them with international heroin rings operating out of Rome and the Caribbean. They also smuggle cocaine through Peru and some front companies have emerged in Rio de Janeiro.

Of particular concern, say the police officials, is a developing friendship between the Yamaguchi Gumi and the 40,000-strong Chinese United Bamboo triad whose crime network spreads through Bangkok, Hong Kong and Taiwan to San Francisco, New York and London.

One group of Yakuza has honed a new fraud scam by heavily insuring a potential victim's life in Japan, then arranging for him to win a competition providing a free holiday in Manila — where hired killers come cheap.

They need the extra funds because the Aquino government in the Philippines frowns on the sex-tour trade which brought Japanese men in groups to Manila and Bangkok.

Rider said that with the stronger yen the sex tours are shifting to Europe while the Yakuza are also thought to be supplying mail-order Asian brides to West Germany and Holland.

In the reverse direction the Yakuza are enticing girls and young boys into the seedy sex areas of many Japanese cities. Promised large earnings and smuggled into the country on forged passports, the "white slaves" as they are known in Japan are quickly shackled by blackmail.

"Some 10,000 Thai girls have been taken into Japan and the recruiting area is spreading beyond Hong Kong and Taiwan to the United States and Europe," said Rider.

"They are operating extortion and prostitution rackets that are mind-boggling and we have identified at least five nightclubs in London that are Yakuza-controlled."

An Australian representative at the seminar said the Japanese had taken over large slices of some holiday spots in the country and the police were desperately trying to sift the criminals from the legitimate holidaymakers.

One sign is a missing joint on a little finger. Yakuza often slash it off with a knife at the behest of their boss if they fail to perform some task adequately.

### **Expansion**

Their expansion is funded by vast amounts of yen, one of the world's strongest currencies. Earned from crime, the cash is being invested in legitimate businesses.

Some Pacific island states have found that Japanese gangsters now own large chunks of the companies running their basic industries. Yakuza have been linked to commodity broking houses in South-East Asia.

Rider said there is a growing fear that the Yakuza will export a specialised form of crime hardly known in the West — extortion from major companies.

They demand pay-offs to stop smear campaigns being launched against companies through friendly journalists, blackmail company executives who have mistresses and threaten potentially embarrassing disruptions of annual meetings.

US officials said they know of at least two cases of large American firms, one a leading bank, paying off Yakuza.

## POLITICAL AND SOCIOLOGICAL

### RADICALS MAY RISE AGAINST JNR DIVISION, PRIVATIZATION

Tokyo SENTAKU in Japanese Dec 86 pp 118-121

[Text] The speculation that radical factions will stage major disturbances most likely on 1 April, when the newly established companies resulting from the division and privatization of the Japan National Railways [JNR] will begin operating, is being whispered among concerned security agency officials, principally the police. Based on information gathered by the police forces and from bulletins, leaflets and other materials published by the various radical factions, let us imagine the worst scenario that can occur on the radical factions' day of action, or "X-Day for JNR."

"From before daybreak on that day, a voluminous amount of news flashes will dominate the TV screens. The radical factions, which advocate forceful opposition to the JNR's division and privatization, and former union activists, who have been admitted into the personnel utilization center, called the 'modern Auschwitz,' and who, having been discharged from JNR, were without any hope of reemployment, were subjected to strong harassment and were in desperate straits, revolted simultaneously.

"The news flashes reported the events, as follows:

"Several leaders of the JNR Reform Labor Union Council, which had approved or compromised the JNR's division and privatization, were attacked and their fates are unknown. Even several of the new managerial leaders, installed after the division and privatization, and former JNR leaders are dead or mortally wounded. Railway cables at close to 100 places throughout the nation were severed and railway service was virtually halted. The cable cutting incident of 29 November 1985 cannot be compared with the enormity of this JNR paralysis. Moreover, the Bullet Express Line's central headquarters, located near the Yaesu Gate of Tokyo RR Station, was destroyed and the Bullet Express trains are at a standstill. The central computers of several metropolitan banks were demolished and to all intents and purposes, bank transactions will be impossible for several days. Beginning with the Narita International Airport, all the airports are in an inoperable state. Although the control towers at the airports are unscathed, the control function is in a state of paralysis arising from the destruction of the communication facilities located in the remote areas of the country. And in the heart of

Tokyo, flying bombs were fired at the JNR main office, the Ministry of Transportation building and other buildings, and bombs wide of the mark fell in the woods of Hibiya Park, causing fires.

"Even during the commuting hours, no one seemed to be going to work and a ghastly silence pervaded throughout the residential districts. Just then, a bell rang 'ping-pong' to signal the announcement of a news flash and a telop appeared on the TV screen. At the announcement, 'Prime Minister Nakasone stated that this state of affairs...', the screen suddenly blurred and the TV was silenced."

This sort of massive, intensive disturbances are presently being hypothesized.

Weird Prediction By Veteran Member of the JNRWU

Of course, the occurrence of these disturbances is horrible and the police officials are taking the fullest security measures to prevent their occurrence. But to this impetuous JNR reform which overturned an institution with a 100-year history with only a few days of deliberation and which led to firing 100,000 employees, it is inconceivable that JNR activists and elements within the radical factions would passively stand by with folded arms.

JNR workers and radical factions now are increasingly moving towards extreme radicalism. The harsher the treatment that the government and JNR mete out to them, in proportion the greater becomes the degree of their radicalism. Like a rubber balloon, the greater the external pressure that is applied on it, the higher is the pressure built within, and at some point, a violent explosion will occur.

The workers and radical factions are now on the threshold of an explosion. Let us look at the present situation.

It was after 10 am on 10 October that the entire town of Shuzenji, Shizuoka prefecture was caught in a vortex of strange excitement and stifling heat. With the issue of the JNR reform bill under serious discussion by a special committee of the Lower House as background, the Japan National Railway Workers' Union [JNRWU] was in the second day of its special convention to decide whether "to surrender" or "to continue fighting." The MINDOSA-HA [Democratic League Left Faction] decided to surrender. The Socialist Association and the KAKUSHIN DOSHIKAI [Reformist Comrades Society] (JCP)-affiliated combined force advocated total resistance. The behind-the-scene negotiations, held between the two sides up to the last minute, ultimately failed, and the MINDOSA-HA denounced the executive board headed by vacillating Yamazaki, and left to boycott the convention, saying: "It doesn't matter if the organization is split."

The convention delegates numbered 306. A quorum of 204 was required to pass any measure, but the attending delegates numbered 195, thus lacking 9 members.

The young men's section of the Tokyo District Headquarters within the Convention Preparatory District Headquarters, together with the main unit of the Socialist Association and KAKUSHIN DOSHIKAI combined force, stormed successively into the hotel where the MINDOSA-HA delegates were besieged. They shouted: "How are you shouldering the responsibility given by the union members?" and "Shouldn't you appear at the convention and argue fearlessly?" "Captured" by members of the young men's section in dark blue overalls, the delegates in suit attire turned pale and remained silent.

Subsequently, the boycotting tactic of MINDOSA-HA was withdrawn and when the special convention was reconvened, the cry of "fight with determination" upheld by the Socialist Association and KAKUSHIN DOSHIKAI combined force prevailed to defeat the "surrender course" of the MINDOSA-HA executive board by a wide margin. Members of the executive board resinged en masse. The combined force seized the political power and a new executive board from the resolute resistance faction, with Toshi Roppongi as chairman, was established. One JNRWU veteran, who had observed the power play at the convention meeting from the lobby of the Shuzenji Town General Hall, made the ghastly "prediction" in pain tearfully that: "If the JNRWU, which had led the postwar labor movement, can be so disgracefully mangled in this manner and if 100,000 workers are to be forcefully fired, it is anybody's guess as to what can spring up hereafter."

This incident occurred after 2 am on 12 November. Loud explosive sounds were suddenly heard and flames leaped from one of the newly built homes that lined the residential district of Toganodai in Chiba City. The spreading fire burned furiously and the occupants of the house, who were fast asleep, barely escaped with their lives. The home of Kazuyasu Hara, head of the secretarial section of the JNR main office, was set on fire by guerrillas. His wife suffered light burns on her face. The criminal act was confirmed instantly to have been perpetrated by the Chukaku-Ha [Middle Core Faction] because the combustion chemical, thermite, which is used to commit arson by the Chukaku-Ha's military unit of the People's Revolutionary Army [PRA], was discovered in the area of the fire.

The Chukaku-Ha has been instigating guerrilla activities in its involvement with the JNR reform issue and this arson incident is the 27th case for 1986. And counting from the time the JNR reform became a formal issue in 1985, this incident is the 71st case (6 were attacks on individual homes). The ghastly prediction muttered by the JNRWU veteran in the lobby of the Shuzenji Town General Hall is about to become a reality.

#### Chukaku-Ha's PRA Is Inevitably Radical

The special committee of the Upper House finished its deliberations on the JNR reform bill in late November and the bill will be approved by the end of the month. It is a near certainty that the division and privatization of the JNR will occur in April 1987.

In the face of these developments, the reorganization of the labor unions within the JNR has advanced rapidly. Generally speaking, nine unions, including the Railway Workers' Union [RWU]; National Railway Locomotive Workers' Union [NRLWU]; National Railway Facilities Workers' Union [NRFWU]; True Japan Railway Workers' Union [TJRWU]; etc., which favor JNR's division and privatization, organized the JNR Reform Labor Union Association, and subsequently, in step with the inauguration of the new companies, they are expediting efforts to organize a "promotion association" that would assist in the formation of new labor unions for the new companies. On the other hand, the factions which oppose division and privatization include the JNRWU, which installed a new executive board; the JCP-affiliated National Federation of Locomotive Workers' Union [NFLWU]; and the Chiba Locomotive Workers' Union [CLWU] which has a united front with Chukaku-Ha, but in all cases, union membership has been reduced because of employment insecurity, of "not being able to go to the new company." These events have deepened the feeling of isolation among the Chukaku-Ha-affiliated activists who belong to JNR's ultraleft factions.

In addressing the JNR division and privatization issue from April 1987, the police officials are most concerned about the security problem with the following elements: (1) Chukaku-Ha; (2) radical faction-affiliated activists who were admitted into the personnel utilization center and who will most likely be transferred intact to the Liquidation Project, non-sectarian activists and faithful union activists who might turn radical up until the dismissal announcement; and (3) Chukaku-Ha and those individuals in the above (2) category who would band temporarily to face the "common enemy." The generally held view is that there is no group with a strongly bonded organization, like the radical faction-affiliated activists, with blindly committed members, but the actions of non-sectarian and formerly faithful activists, who have been dropped from organized groups, are unpredictable. But it goes without saying that the individuals in the above (3) category will require the most surveillance.

Just as it has proclaimed itself to be a "covert" organization, the Chukaku-Ha's PRA in its actual state is shrouded with a thick veil. Based on investigative findings gained by the police thus far, the PRA leader is said to be Takeo Shimizu, a political section member, and under his command are two organizations, the Kanto and Kansai branches. The PRA's total strength is estimated to range from 100 to 150 members. It is divided into the information gathering squad; the preparation squad which produces guerrilla-use weapons; the procurement squad which supplies the various materials required to produce weapons; the fighting squad which actually engages in the criminal acts; etc. It is a meticulous organization which spends at least a month or more for preliminary plans before conducting an operation. Even to conduct an operation, members who are total strangers can band into groups and their modus operandi calls for giving instructions on attack targets and escape methods when the groups are assembled on the day of operation. As a result, even if one member is captured, it does not mean the others will be rounded up one by one.

This mastery of perpetrating crime in an extremely detailed manner is said to be actually a product of the interfactional struggles. The gruesome interfactional struggle with KAKUMARU-HA [Revolutionary Marxist Faction] from around 1967 and up until January 1986 has resulted in Chukaku-Ha murdering 43 KAKUMARU-HA members and vice versa, KAKUMARU-HA murdering 15 Chukaku-Ha members.

"Did you know that the mackerel will rot from staying still? It is said that the innards of the mackerel will rot if it does not swim in water at the high speed of more than 80 km per hour. The Chukaku-Ha is like the mackerel. Operating at a comparable pace, the organization cannot sustain itself unless it escalates its campaign successively from one fight to the next. The PRA will definitely begin using bombs." A responsible police official at the police headquarters in Kasumigaseki related the above with a serious look. If the "theory of the mackerel rotting from staying still" is to be applied, then unmistakably Chukaku-Ha will aim to use force to block JNR's division and privatization in April 1987 and it will escalate terrorist acts against key personnel and conduct guerrilla operations with the objective of destroying the more important installations hereafter.

The biggest target of the PRA, which is Chukaku-Ha's covert unit, is Akira Matsuzaki, the NRLWU's committee chairman and formerly the number two man of KAKUMARU-HA. Early in the morning of 1 September 1986, the PRA launched simultaneous operations in Kanto and Kansai districts. In Kansai, the PRA murdered the chief secretary of the Osaka district headquarters of the TJRWU, considered to be "KAKUMARU-HA's dummy unit," and inflicted serious injuries on the committee chairman of the same district headquarters and his family, totally eight people; in Kanto, it achieved a "military victory" by inflicting serious injuries on the committee chairman of the TJRWU's Tokyo district headquarters. In leaflets and in its organ "Advance" published after these crimes, the faction clamored: "Let us smash and eradicate the TJRWU and NRLWU's KAKUMARU-HA members" and it has attacked in the strongest language, such as: "As a followup to the 1 September operation to concertedly annihilate the key members of the TJRWU, we will fight determinedly with second and third similar operations in greater intensity" and "We will never tolerate Matsuzaki, the antirevolutionary, vanguard fascist and KAKUMARU-HA NRLWU leader."

Among other things, it is said that Takaya Sugiura, JNR president, and Katsunishi, deputy chief of the Personnel Bureau who is virtually responsible for the labor policy, are among the names listed as targets of the faction's terrorist campaign against key personnel.

#### Defenseless Against City Guerrilla Operations

"You have probably heard these expressions: 'Chukaku-Ha is male and KAKUMARU-HA is female' and 'KAKUMARU-HA for organization and Chukaku-Ha for combat.' Chukaku-Ha is one-track minded. Its demonstrators meet the riot police boldly with head-on attacks. The KAKUMARU-HA will turn around completely

when in front of the riot police block line. Don't they somewhat symbolize the actions of the present JNR struggles?" This analysis by a key member of the Security Division of the National Police Agency hits the nail on the head. "Chukaku-Ha hopes to link the Narita International Airport struggle with the JNR struggle. By doing so, the double effect from the two struggles will heighten its movement, easily create more blind spots for the police and facilitate the rampaging of the PRA. Chukaku-Ha is probably thinking it best to kill Matsuzaki, the president of the Airport Public Corporation and others at the same time, thereby getting rid of the Narita International Airport-related officials." This was the opinion of a former ranking official of the National Police Agency. Above all else, the utmost emphasis is on Chukaku-Ha.

In shifting the focus from terrorism to guerrilla action (destructive operations), the issue of preventing these operations is almost futile. In overlapping with the Narita International Airport struggle up to now, the Metropolitan Police Department, within its area of jurisdiction, has selected about 400 installations, including the Imperial Palace, Togu Palace, Ministry of Transportation, Airport Public Corporation and the U.S. Embassy, to be furnished with heavy police protection and meticulous security measures have been provided, but on the other side, the guerrillas possess the "attacker's initiative" with the freedom to select targets and the date and time of attack, and can strike at security weak points through detailed preparation. Of course, even the police are engaged in "offensive-type defense" with the surveillance and interrogation of activists and such likely individuals, but the police have not yet grasped the full story of the radical factions.

It happened late at night on 11 October 1986. A suspicious-looking truck speeding on a farm road in Miyagi prefecture was stopped unexpectedly by the police on duty who questioned the driver, and this was the start of the incident when a Chukaku-Ha bomb factory in Iwate prefecture was exposed and led to the arrest of seven activists. Of course, no one would believe that the police interrogation was purely accidental, but even this year alone results have been achieved, such as the exposure of radical faction activists in Matsumoto, Nagano prefecture; Koshigaya, Saitama prefecture; Kawasaki, Kanagawa prefecture; Kasugai, Aichi prefecture, etc., and the arrest of activists during wanted-criminal investigations. In reviewing the year from April 1985, there were 51 radical faction-caused incidents, including the arson case of the National Research Institute of Police Science, National Police Agency, up to the 29 November JNR guerrilla incident, but no one has been arrested. As for the movements of the underground radical factions, the truth is that "hardly any leads have been grasped," according to a former police official.

In effect, if the Chukaku-Ha PRA feels like doing so, it can wage a guerrilla operation at any time, anywhere. From the expert's viewpoint, the targets are countless and include cable cutting, which is considered to be very simple and was executed in November 1985 and on 24 September 1986; siege and destruction of the Bullet Express Line command room (actually the control tower of the Narita International Airport was destroyed by a radical faction,

causing a delay in its opening); interference with the railway telephone; burning railway facilities; etc. Maintaining a constant patrol for all the installations is impossible from the standpoint of finance and personnel. And especially since personnel within JNR will be assisting and executing the operations, nothing can be done about the situation. It can be said that Chukaku-Ha has an ample number of options.

#### Will The Radical Factions Link Up With Other Forces?

Another insecure factor is the action of radical faction sects, besides Chukaku-Ha and the Chiba branch of the NRLWU. To the extent that JNR is called a "sample fair of radical factions," it has many activists from various sects of the radical factions. These are JIMMINNOCHIKARA-HA [People's Power Faction]; MARUSEIDO [Marxist Youth League]; KAKUROKYO (SHASEIDOKAIHO-HA) [Revolutionary Workers Association (Socialist Youth League Liberation Faction)]; SHAKAISHUGIRODOSHA-TO [Socialist Workers Party]; etc. It is said that the total number of activists, outside of the Chukaku-Ha and KAKUMARU-HA, range from 500 to 1,000. As described previously, the majority of these activists have been "admitted" into the personnel utilization center, called the "modern Auschwitz" and unmistakably these people will be sent to the "Liquidation Project." Even if they are converted now, it would be a difficult situation for them to return to railway life once again as their objective.

The government and the JNR itself have only said that "after a 3-year reeducation, we will assist in securing employment" and the future of these Group personnel is not clearly defined. It is not likely for private companies, government ministries and agencies, and local autonomous governments to accept these avowed activists who are being booted out with stigma by the JNR. Reeducation is meaningless and they themselves know fully well that ultimately they will be unemployed.

What is sad for these people is the lack of any skills into which they can release their anger. Even if they, who have not been given any work assignment, should stage a strike or commit sabotage, the JNR would hardly feel the effects.

There is no reason why the radical factions, like Chukaku-Ha, will not focus on the "prisoners" of the personnel utilization center, who are becoming radicalized emotionally as a result of discontentment. The view must be taken that the more JNR abandons these people, the more they are likely to turn radical. There is no guarantee that they will not form a joint front with Chukaku-Ha. There is also the possibility that, despite some differences in ideology, the small and weak sects of radical factions can form a coalition with the idea of facing a mutual enemy, than an enemy of an enemy is an ally.

Of course, the biggest fear is the time when all these forces mass together, for at that time the possibility of realizing an "uprising" aimed at installations besides JNR facilities and not stopping only with JNR-related officials, as described in the scenario at the outset, will not be small.



It can be said that indications for the coming of X-Day are certainly mounting and heightening.

Furthermore, many experts indicate that the second and third uprisings can be expected to occur after April 1987. As for the people in the personnel utilization center really turning radical and rampaging, the time will be 3 years hence, as they approach disbandment from the Liquidation Project. At that time, even among the JNRWU members who had safely entered the new companies, the dissatisfaction that decent work was not given them or that the reception was cold will have reached the highest point. In retrospect, the reason is because, even at that time, the Cyukaku-Ha will unmistakably make its move.

The view is strongly held that many of those who had been sent to the Liquidation Project and who may not be reemployed even after 3 years may form a mammoth striking force under JCP leadership, with the backing of the ¥60 billion assets held by JNRWU whose leadership is JCP-related. But it is reasonably possible for a good number of these men to be dissatisfied with the organization and to turn radical. If these men should turn anarchistic by groups, then who can say that the "fireworks will not escalate?" In recalling the former "East Asia Anti-Japan Armed Front," Masaji Daidoji and Toshio Kataoka who actually caused the Mitsubishi Heavy Industries Co. blasting incident and the "Niji Operation" which aimed at blasting the Emperor's special RR coach, there is the greatest possibility of the anarchistic small groups becoming ultra-radical factions.

The division and privatization of JNR are imminent. Outwardly the impression is one of normal progress, but below the surface lies an extremely dangerous situation. JNR's X-Day may occur before or after 1 April. It can be said that the indications for "uprisings" by a segment of JNR's workers and radical factions, directed toward that day, will definitely be surging.

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## MILITARY

### FY-87 DEFENSE RELATED BUDGET PROPOSAL REVIEWED

Tokyo BOEI ANTENA in Japanese Feb 87 pp 30-47

#### Defense Agency Budget Proposal

##### [Text] 1. Basic Policy

With regard to Japan's defense power, high quality defense power is to be built up steadily in accordance with the previously established policy to achieve as swiftly as possible the levels of the Outline of the Defense Plan, while striving for harmony with other national policies.

According to the fiscal 1987 defense-related budget, on the one hand, steady implementation is planned as the second fiscal year of the Mid-term Defense Buildup Plan determined by the Cabinet, with striving to achieve the levels of defense power set in the Outline of the Defense Plan as the goal, and together with consideration for promoting base countermeasures such as increasing the amount of expenditures for base employee measures, emphasis is to be made in particular on the logistics division such as improvement of the command communications function, maintenance and upgrading of skills, and improvement in the treatment of the troops, in addition to improvement in the quality of frontline equipment items. On the other hand, there is concern for the grim economic and financial situation and the required expenditures have been appropriated while striving to reduce the overall scale based on factors such as the high yen and decline in the price of oil.

##### (1) Total Amount

Fiscal 1987 defense related expenditures are 3,517.4 billion yen, an increase of 5.2 percent of 173.9 billion yen over the previous fiscal year. Compared to other major expenditures, social welfare expenses are 10,089.6 billion yen, public works expenses are 6,082.4 billion yen, and education and science promotion expenses are 4,849.7 billion yen, which are respectively, 2.9, 1.7, and 1.4 times defense related expenditures.

##### (2) Percentage Increase

Amidst the disadvantage of being a decrease in the general expenditures, which are so-called policy expenses, of the General Account excluding for

National Debt expenses and Distribution of Local Allocation Tax, the percentage increase of defense-related expenditures over the previous fiscal year is 5.2 percent. This was due to making national security a priority resource allocation, while considering a balance with other expenditures.

### (3) Component Ratio

The percentages occupied by defense related expenditures in the General Account Expenditures and General Expenditures are respectively, 6.5 percent (6.2 percent in fiscal 1986) and 10.8 percent (10.3 percent in fiscal 1986). Also, the ratio of defense related expenditures to the gross national product (initial government forecast) is 1.004 percent (0.993 percent in fiscal 1986).

## 3. Major Policies

The Japan Defense Agency places emphasis on the following items:

### (1) Repletion of Equipment

Buildup is to proceed centering on renovation and modernization of major equipment such as ground equipment, aircraft, and ships.

In fiscal 1987, procurement is to be made of anti-submarine patrol planes (P-3C, 9 aircraft), interceptor fighters (F-15, 12 aircraft), and escort ships (DE, 2 ships).

### (2) Upgrading of Sustained Fighting Capability, Response Posture, and Resistance

Efforts are to be made to continue to upgrade steadily sustained fighting capability by storage of ammunition, as well as the response posture by mounting of torpedoes and mines in order to demonstrate defense power effectively.

Also, efforts are to be made to continue policies to upgrade resistance such as the buildup of base air defense fire weapons like short-range SAM and portable SAM and shelters and runway repair mats for aircraft.

### (3) Improvement of Command Communications and Information Function

The Self Defense Forces must display the necessary functions in the fields of command communications and information in order to take appropriate action swiftly and effectively. For that reason, in the fiscal 1987 budget, effort is to be made to promote renovation of obsolete communications instruments, in addition to striving to upgrade reliability of communications at sea by buildup of a satellite communications function for ships as well as a very long frequency (VLF) transmitter, and along with striving to upgrade the resistance of the communication network such as buildup of an integrated digital defense network (IDDN).

#### (4) Instruction and Training

Striving to maintain and upgrade skill levels through sufficient instruction and training in peacetime is indispensable for the Self Defense Forces to demonstrate their capability thoroughly in an emergency. Based on this viewpoint, there will be an endeavor to upgrade skill levels and efforts made for repletion of instruction and training equipment, along with striving to restore training levels that fell considerably due to the oil shock by increasing annual flight time for fighter pilots from 146.5 hours to 160.5 hours.

#### (5) Promotion of Troop Policies

From the viewpoint of striving to raise troop morale with regard to troop policies, efforts are to be made to improve the treatment of the troops such as promoting ship-side delivery and outside contracting of dish washing, along with planning for repletion of living-related facilities such as buildup of barracks, kitchens, bathhouses, gymnasiums, pools, recreation centers, as well as quarters.

#### (6) Promotion of Research and Development

There will be an endeavor for promotion and repletion of research and development in order to contribute to the upgrading of the level of quality of defense power, and the budget of the Technical Research and Development Institute has been calculated at 73.3 billion yen, an increase of 12.3 percent over the previous fiscal year, and a 2.08 percent share of defense-related expenditures. In fiscal 1987, along with continuing to implement research and development on a new tank, ship/air-to-ship guided missiles, and various missiles for combat, research and development will commence on a new personal portable SAM, and rear warning device, etc.

#### (7) Authorized Personnel and Adequacy Rate

In accordance with the 7th Plan for Reduction in Authorized Personnel in fiscal 1987, while on the one hand conducting a planned cut of 295 civilian personnels, 510 self defense uniformed personnels and 121 civilian personnels are to be added in order to strive to ensure the minimum necessary personnel to maintain and employ defense power.

An adequacy rate of 90 men was newly approved in the Ground Self Defense Force (GSDF) in order to modernize the 2nd Division. As a result, the adequacy rate for the GSDF was raised by 0.05 percent to 86.4 percent.

Also, a total increase of 1,500 men was authorized for reserve self defense officials: 1,000 GSDF, 200 Maritime Self Defense Force (MSDF), and 300 Air Self Defense Force (ASDF).

Table 1. Scale of Defense Related Expenditures (Units = billion yen, percent)

Item	Fiscal 1986	Fiscal 1987 Budget
1. Defense-related expenditures (A)	3,343.5	3,517.4
Rate increase over previous fiscal year	6.58	5.2
(1) Japan Defense Agency (JDA)	3,015.1	3,158.4
Rate increase over previous fiscal year	7.1	4.8
(2) Defense Facilities Administration Agency (DFAA)	328.3	358.9
Rate increase over previous fiscal year	1.8	9.3
(3) Security Council	.2	.2
2. Gross National Product (B)	336,700.0	350,400.0
3. General Account Expenditures (C)	54,088.6	54,101.0
Rate increase over previous fiscal year	3.0	0.0
4. General Expenditures (D)	32,584.2	32,583.4
Rate increase over previous fiscal year	-0.0	-0.0
5. Scale of Defense Related Expenditures		
(A)/(B)	0.993	1.004
(A)/(C)	6.2	6.5
(A)/(D)	10.3	10.8

Note: 1. Defense-related expenditures, General Account Expenditures, and General Expenditures are all initial budget amounts (same below).

2. Gross National Product in initial estimate.

3. Totals, as a rule, are rounded to the nearest whole number and do not fully tally (same below).

Table 2. Expenditure Budget (Units = billion yen, percent)

(1) Breakdown by Expense		
Item	FY1986 Budget Amount	FY1987 Budget Amount
Defense-related Expenditures	3,343.5	3,517.4
Rate increase over previous fiscal year	6.58	5.2
Personnel/food expenses	1,508.6	1,543.9
Rate increase over previous fiscal year	6.7	2.3
Supply expenses	1,835.0	1,973.6
Rate increase over previous fiscal year	6.5	7.6
[1] Annually Appropriated expenses	1,169.9	1,265.0
Rate increase over previous fiscal year	9.0	8.1
[2] General Supply expenses	665.1	708.6
Rate increase over previous fiscal year	2.4	6.5
[1] Front-line	773.3	855.6
Rate increase over previous fiscal year	7.0	10.6
[2] Rear	1,061.7	1,118.0
Rate increase over previous fiscal year	6.1	5.3

(2) Breakdown by Organization (Units = million yen, percent)

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent
(Japan Defense Agency, Proper)			
GSDF	1,286,200	1,249,517	2.9
MSDF	861,548	793,286	8.6

[Table 2 continued on following page.]

[Table 2. continued]

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent
ASDF	898,285	870,560	3.2
Subtotal	3,046,033	2,913,363	4.6
Internal Bureaus	7,301	7,095	2.9
Joint Staff Council	2,337	2,069	12.9
National Defense Academy	11,029	9,858	11.9
National Defense Medical College	12,659	11,916	6.2
National Institute for Defense Studies	856	846	1.2
TRDI	73,286	65,259	12.3
Central Procurement Office	4,897	4,704	4.1
Subtotal	112,365	101,747	10.4
JDA, Proper Total	3,158,398	3,015,110	4.8
(Defense Facilities Administration Agency)			
JDA Total	3,517,264	3,343,395	5.2
(Security Council)	170	154	10.5
Total Defense-related Expenditures	3,517,434	3,343,549	5.2

Table 3. Transactions/ Follow-on Expenses Charged to National Debt  
(Unit = million yen)

(1) Ceiling for Transactions Charged to National Debt (New Portion)  
(Unit = million yen)

Item	FY1987 Budget	FY1986 Budget
(Japan Defense Agency, proper)	1,334,354	1,147,387
Weapons Purchases	237,709	201,736
Communications Instruments Purchases	64,853	52,352
Ammunition Purchases	144,985	128,719
Aircraft Purchases	387,303	397,672
Ship Construction	50,989	26,784
Provision of Equipment Items	227,629	197,228
Research and Development	54,250	47,321
Other	166,636	95,576
(DFAA)	72,263	62,373
Total	1,406,617	1,209,759

(2) Continuing Expenditures (Unit = Million Yen)

Item	Annual Installment				
	Total	FY87	FY88	FY89	FY90

[FY1987 Budget Amount]

FY1987 Type B Patrol Ship Construction Expenses (DE)	51,077	387	6,031	25,097	19,562
FY1987 Submarine Construction Expenses (SS)	39,208	167	11,062	11,269	16,710
Total	90,285	554	17,093	36,366	36,272

[FY1986 Budget Amount]

FY1986 Type A Patrol Ship Construction Expenses (DD)	43,277
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[Table 3. continued on following page.]



[Table 3. continued]

Item	Annual Installment				
	Total	FY87	FY88	FY89	FY90
FY1986 Type B Patrol Ship Construction Expenses (DE)	50,548				
FY1986 Submarine Construction Expenses (SS)	39,763				
Total	133,588				
(3) Amount Charged To Later Years (Unit = million yen)					
Item	FY1987 Budget		FY1986 Budget		
1. New Portion	1,467,118		1,321,400		
(1) Transactions Charged to National Debt	1,377,387		1,188,478		
(Japan Defense Agency, proper)	1,316,916		1,136,085		
Weapons Purchases	236,607		201,091		
Communications Instruments Purchases	64,723		52,247		
Ammunition Purchases	143,934		127,621		
Aircraft Purchases	386,076		396,530		
Ship Construction	50,774		26,653		
Provision of Equipment Items	226,306		196,454		
Research and Development	50,286		45,065		
Other	158,209		90,423		
(DFAA)	60,471		52,393		
(2) Continuing Expenditures	89,731		132,921		
2. Previously Set Portion	1,135,460		1,096,890		
Total	2,602,578		2,418,290		

Table 4. Authorized Personnel (Unit = men)

Category	Estimate End of FY1986			Estimate End of FY1987		
	SDF Officials	Admin Officials	Total	SDF Officials	Admin Officials	Total
GSDF	180,000	10,696	190,696	180,000	10,606	190,606
MSDF	45,551	4,146	46,697	45,790	4,113	49,903
ASDF	47,065	4,424	51,489	47,332	4,381	51,713
Subtotal	272,616	19,266	291,882	273,122	19,100	292,222
Internal Bureaus	0	503	503	0	513	513
Joint Staff Council	152	35	187	156	36	192
National Defense Academy	0	667	667	0	663	663
National Defense Medical College	0	1,100	1,100	0	1,099	1,099
National Institute for Defense Studies	0	95	95	0	97	97
TRDI	0	931	931	0	926	926
Central Procurement Office	0	572	572	0	570	570
Subtotal	152	3,903	4,055	156	3,904	4,060
(JDA, proper)	272,768	23,169	295,937	273,278	23,004	296,282
(DFAA)	0	3,409	3,409	0	3,399	3,399
Total	272,768	26,578	299,346	273,278	26,403	299,681
Reserve SDF Officials			44,900			46,400

Table 5. Self Defense Official Adequacy Rate

Category	Fiscal 1987 Adequacy Rate	Fiscal 1986 Adequacy Rate
GSDF	86.4 percent	86.35 percent
MSDF	96.0 percent	96.0 percent
ASDF	96.0 percent	96.0 percent

Table 6. Breakdown by Major Items (Unit = Million Yen)

Item	Quantity	Total	Annual Expenditure	Charged to Later Years
I. Improvement of Equipment				
(1) Category A				
1. 9mm pistol	1,800	234	0	234
2. 62 model machinegun	42	99	0	99
3. 74 model vehicle-mounted machinegun	8	23	0	23
4. 12.7mm heavy machinegun	26	126	0	126
5. 84mm recoilless gun	233	476	0	476
6. Medium anti-tank guided missile launcher	22 sets	2,147	0	2,147
7. 79 model anti-ship/anti-tank guided missile launcher	20 sets	1,251	0	1,251
8. 64 model 81mm mortar	12	41	0	41
9. 155mm howitzer FH70	43	13,524	0	13,524
10. 203mm self-propelled howitzer	6	2,205	66	2,139

[Table 6. continued on following page.]

[Table 6. continued]

Item	Quantity	Total	Annual Expenditure	Charged to Later Years
11. New anti-aircraft machinegun	4	6,478	0	6,478
12. 74 model tank	52	20,642	0	20,642
13. 73 model armored vehicle	23	2,723	0	2,723
14. 82 model command communications vehicle	22	1,934	0	1,934
15. Reconnaissance patrol vehicle	16	4,001	0	4,001
16. Gun-side ammunition vehicle	7	890	0	890
17. 78 model tank recovery vehicle	5	1,254	0	1,254
18. 78 model snow vehicle	22	692	0	692
19. Chemical protection vehicle	2	328	0	328
Total		59,069	66	59,003
(2) Aircraft				
(GSDF)				
1. Anti-tank helicopter (AH-1S)	8	19,488	66	19,423
2. Observation helicopter (OH-6D)	12	3,130	0	3,130
3. Multi-purpose helicopter (HU-1H)	8	5,823	0	5,823
4. Transport helicopter (CH-47J)	4	20,903	0	20,903

[Table 6. continued on following page.]

[Table 6. continued]

Item	Quantity	Total	Annual Expenditure	Charged to Later Years
Subtotal	32	49,344	66	49,278
(MSDF)				
1. Anti-submarine patrol aircraft (P-3C)	9	89,399	0	89,399
2. Electronic warfare data collection aircraft (EP-3)	1	12,430	0	12,430
3. Training support aircraft (U-36A)	1	2,817	48	2,770
4. Beginner pilot trainer (KM-2 remodeled)	2	702	43	659
5. Liaison aircraft (LC-90)	1	534	60	475
6. Anti-submarine helicopter	17	37,749	230	37,519
7. Minesweeping helicopter (MH-53E)	2	9,174	70	9,105
8. Beginner pilot trainer helicopter (OH-6D)	2	465	0	465
Subtotal	35	153,271	450	152,821
(ASDF)				
1. Fighter (F-15)	12	106,110	130	105,981
2. Transport (C-130H)	3	14,876	164	14,712
3. Intermediate trainer (T-4)	20	48,059	418	47,641
4. Transport helicopter (CH-47J)	2	10,899	0	10,899

[Table 6. continued on following page.]

[Table 6. continued]

Item	Quantity	Total	Annual Expenditure	Charged to Later Years
5. Rescue helicopter (V-107A)	4	4,744	0	4,744
Subtotal	41	184,688	711	183,977
Total	108	387,303	1,227	386,076
(3) Ships				
(Ships and Craft)				
1. Type B patrol ship (DE)	2 3,800 ton	51,077	387	50,690
2. Submarine (SS)	1 2,400 ton	39,208	167	39,041
3. Medium minesweeping craft (MSC)	2 980 ton	10,343	18	10,326
4. Supply ship (AOE)	2 16,600 ton	39,255	87	39,168
Subtotal	7 23,780 ton	139,884	658	139,225
(Support ships)	7 1,881 ton	1,583	302	1,280
Total	14 25,661 ton	141,466	961	140,505
(4) Surface-to-air guided missiles				
1. Improved HAWK	1 group	21,825	467	21,358
2. PATRIOT	1 group	109,430	522	108,908

[Table 6. continued on following page.]

[Table 6. continued]

Item	Quantity	Total	Annual Expenditure	Charged to Later Years
3. Short-range surface-to-air guided missile (Short-range SAM)	12 sets	28,369	0	28,369
4. Portable-type surface-to-air guided missile (Portable SAM)	110 sets	2,567	128	2,439
Total		162,191	1,117	161,074
(5) Category B Organizational Equipment Items		47,721	23,466	24,255
(6) Weapon Vehicles, etc.				
(GSDF)		12,136	4,294	7,841
(MSDF)		55,552	6,051	49,501
(ASDF)		75,322	9,700	65,622
(Other agencies)		64	64	0
Total		143,074	20,110	122,964

Category	FY1987 Budget	FY1986 Budget	Remarks
II. Guarantee of Ammunition	(143,934) 147,509	(127,621) 117,872	New contract 132,706 to 149,452
III. Improvement of Command Communications/Information Function	(72,155) 68,986	(51,804) 47,581	
(1) Upgrading communications network resistance	(17,736) 7,522	(12,255) 1,166	

[Table 6. continued on following page.]

[Table 6. continued]

Category	FY1987 Budget	FY1986 Budget	Remarks
1. Integrated digital defense network (IDDN)	(4,254) 37	0	
2. Communications concealment	(13,482) 7,485	(12,255) 1,166	Field radios, equipment for secret conversation over wide area, new instruments to improve BADGE communications
(2) Upgrading reliability of sea communications	(3,990) 1,496	150	
1. Satellite communications function for ships	(741) 48	0	
2. Very long frequency transmitter (VLF)	(3,250) 1,448	150	
(3) Promotion of renovation of out-dated communications instrument	(50,429) 59,968	(39,549) 46,265	Renovation of regional district unit electronic exchange system, carrier instruments for mobile communications units, improved 3-dimensional fixed radar device
[Reference] OTH radar	6	0	

[Table 6. continued on following page.]



[Table 6. continued]

Category	FY1987 Budget	FY1986 Budget	Remarks
IV. Promotion of instruction and training	(278,926) 431,701	(237,013) 410,540	
(1) Upgrading of skills (except facilities expenses)	(55,313) 49,660	(40,949) 41,324	
1. Recovery of training levels	(2,693) 3,238	(390) 727	Increase of regiment combat group training, increase of group training for one patrol unit group, increase of training flight time for fighter pilots
2. Instruction and training instruments	(52,620) 46,421	(40,559) 40,597	Expenses for instruction and training instruments, and training maneuvers
(2) Oil purchase expenses (except for training upgrade portion)	41,785	67,937	Total oil purchase expenses 68,257 to 43,329
(3) Equipment item repair (except for training upgrade portion)	(233,613) 340,257	(196,064) 301,279	Expenses for maintenance and repair of aircraft, ships, and weapons, improvements to upgrade

[Table 6. continued on following page.]

[Table 6. continued]

Category	FY1987 Budget	FY1986 Budget	Remarks
			capability of F-4EJ 8 aircraft. Total for servicing equipment items (196,454) 301,687 to (226,306) 341,951
V. Promotion of troop policies	(9,918) 90,512	(5,321) 87,678	
(1) Improvement of living related facilities	(9,125) 31,484	(4,438) 25,370	
1. Barracks, etc.	(9,125) 17,420	(4,438) 13,552	Expenses for new, added, improved, maintenance and repair of facilities
			a. barracks 30 to 40
			b. kitchens 5 to 13
			c. bath houses 1 to 12
			d. gyms, pools, rec centers 8 to 17
			e. replacement of boilers 5 to 2
2. Government housing	14,064	11,818	Expenses for new housing, maintenance and repairs

[Table 6. continued on following page.]

[Table 6. continued]

Category	FY1987 Budget	FY1986 Budget	Remarks
			Government built 318 to 503
			Special lease 460 to 452
			General upgrading 135 to 186
			Total 913 to 1,141
(2) Improvement of treatment	(314) 35,429	(315) 39,163	
1. Housing expenses	(314) 27,429	(315) 31,574	Expenses for housing furnishings, fuel, light, heat, water charges
2. Clothing expenses	7,293	7,065	
3. Reduction of miscellaneous and odd duties	707	525	Expenses for out- side contracting of dishwashing, ship-side deliveries
(3) Job placement support	1,335	1,089	Transfer before retirement, skill training, business management educa- tion and other job placement support expenses
(4) Promotion of health policies	(479) 22,264	(567) 22,056	
1. Improvement of medical facilities	(479)	(567)	Improvement of medical facilities in Misawa region.

[Table 6. continued on following page.]

[Table 6. continued]

Category	FY1987 Budget	FY1986 Budget	Remarks
2. Medical treatment expenses	21,110	20,082	Medical treatment expenses, contracted diagnosis and treatment expenses
VI. Buildup of Defense Facilities	(39,623) 72,206	(23,222) 56,159	
(1) Operations-related facilities	(20,286) 33,769	(16,100) 31,066	Air field, ammunition storehouse, harbor-related facilities
(2) Living-related facilities	(9,125) 18,301	(4,438) 12,509	Barracks, government housing
(3) Rear-support facilities	(10,213) 19,763	(2,684) 11,715	Education, communications, supply facilities
(4) Environmental protection facilities	373	790	Sewage treatment facilities
VII. Promotion of Research and Development	(50,620) 73,286	(45,065) 65,259	Share of defense-related expenses  (1986) 1.95%  (1987) 2.08%

[Table 6. continued on following page.]

[Table 6. continued]

Category	FY1987 Budget	FY1986 Budget	Remarks
(1) Research and development expenses	(50,286) 65,362	(45,065) 57,655	Prototype-manufacture of equipment items 33 to 36  Commissioned technology survey research items 7 to 7
(2) Facilities buildup expenses	(334) 843	835	
(3) Personnel expenses	7,081	6,768	

Table 7. Ratio to General Account Expenditures and to GNP

	FY1986	FY1987
GNP (trillion yen)	336.7	350.4
General Account Expenditures (billion yen)	54,088.6	54,101.0
Defense-related Expenditures (billion yen)	3,343.5	3,517.4

#### Defense Facilities Administration Agency Budget Proposal

[Text] The fiscal 1987 Defense Facilities Administration Agency budget draft set an annual expenditure of 358,866 million yen and 72,263 million yen charged to the national debt.

The annual expenditure budget was an increase of 9.3 percent of 30,581 million yen compared to the previous fiscal year, which had an initial budget draft of 328,285 million yen.

Base countermeasure expenses with an annual expenditure of 329,887 million yen increased 9.6 percent or 28,816 million yen over the initial budget draft of the previous fiscal year, which was 301,071 million yen.

A summary of the fiscal 1987 budget draft is as follows:

1. Base periphery countermeasure activities are to place emphasis on assisting the soundproofing of homes, and to strive to buildup the living environment in areas surrounding bases.

It is particularly necessary to implement aggressively house soundproofing work and 58,963 million yen has been appropriated in fiscal 1987, an increase of 5.5 percent over the previous fiscal year.

On the other hand, plans are to keep other base periphery countermeasure expenses under that of the previous fiscal year, based on the current severe financial situation.

2. With regard to sharing expenses for stationing U.S. military in Japan, a buildup of the facilities provided to USFJ and measures for base employees will be promoted in order to contribute to the smooth operation of the U.S.-Japan security structure.

3. The respective amounts required will be appropriated for compensation expenses and expenditures necessary for moving facilities provided to USFJ.

Table 1. Annual Expenditure Budget (Units = million yen, percent)

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent Increase Over Previous Fiscal Year
(Organization)			
Defense Facilities			
Administration Agency			
DFAA	25,399	23,733	7.0
Procurement/labor management expenses	38,560	21,575	78.7
Facilities operation and other related expenses	(60,471) 293,662	(51,824) 278,983	5.3

[Table 1. continued on following page.]

[Table 1. continued]

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent Increase Over Previous Fiscal Year
Buildup and moving of facilities provided to USFJ	(0) 1,085	(569) 3,843	-71.8
Mutual Defense Assistance Agreement Grant	160	151	6.1
Total	(60,471) 358,866	(52,393) 328,285	9.3

Notes:

1. Amounts in parentheses are charged to later years as national debt transactions. The same in tables below.
2. Budget amounts are for initial budget. The same in tables below.
3. Due to rounding off, the totals do not tally. The same in tables below.
4. The rate increase is rounded off the second decimal place. The same in tables below.

Table 2. Transactions Charged to National Debt (Unit = million yen)

Item	Ceiling for Transactions Charged to FY1987 National Debt	Annual Installment	
		FY1987	FY1988
Buildup of facilities provided to USFJ	72,263	11,792	60,471

Table 3. Authorized Personnel (Unit = person)

Organization	Authorized Personnel End FY 1986	Increase for FY1987			Authorized Personnel End FY1987
		Increase	Decrease	Total	
Headquarters	568	4	-5	-1	567
Regional offices	2,841	26	-35	-9	2,832
Total	3,409	30	-40	-10	3,399

Note: Decrease in personnel in the Increase for FY1987 column is the decrease in authorized personnel based upon "Implementation of Reduction in Authorized Personnel Program (No. 7)," (Cabinet decision, 1 Aug 1986).

Table 4. Base Countermeasures Expenses (Units = million yen, percent)

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent Increase Over Previous Fiscal Year
I. Facilities management-related expenses	(60,471) 293,662	(51,824) 278,983	5.3
1. Promotion of base periphery measures	150,361	148,323	1.4
(1) Obstacle prevention work	20,352	20,100	1.3
(2) Noise prevention work [portion of above for house sound-proofing]	81,777 [58,963]	79,446 [55,900]	2.9 [5.5]

[Table 4. continued on following page.]



[Table 4. continued]

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent Increase Over Previous Fiscal Year
(3) Livelihood stabilization work	20,646	21,957	-6.0
(4) Road improve- ment work	9,472	9,352	1.3
(5) Periphery maintenance adjustment grant	10,672	10,672	0.0
(6) Transfer measures work	6,533	5,884	11.0
(7) Greenbelt provision work	790	790	0.0
(8) Facilities periphery compensation	119	122	-2.7
2. Buildup of facilities provided	(60,471) 73,529	(51,824) 62,683	17.3
3. Improvement of compensation expenses	69,771	67,978	2.6
(1) Facilities rent	58,038	60,318	-3.8
(2) Fishing compensation	4,026	3,915	2.8
(3) Other compensation	7,707	3,745	2.1 times

[Table 4. continued on following page.]

[Table 4. continued]

Item	FY1987 Budget Amount	FY1986 Budget Amount	Percent Increase Over Previous Fiscal Year
II. Procurement and Labor Management Expenses (except for consigned management work)			
Strengthening of base employee measures	35,141	18,245	92.6
(1) Measures for those separated from job	409	505	-18.9
(2) Welfare measures	9,633	9,356	3.0
(3) Employee measures [portion of which are special agree- ment]	25,098 [16,504]	8,384 [0]	3.0 times [--]
III. Expenses for Buildup and Moving of Facilities Provided to USFJ			
Moving of Facilities Provided to USFJ	(0) 1,085	(569) 3,843	-7.18
Total	(60,471) 329,887	(52,393) 301,071	9.6

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## MILITARY

### BREAKING OF DEFENSE-SPENDING LIMIT CRITICIZED

Tokyo GEKKAN SHAKAITO in Japanese Mar 87 pp 106-113

[Article by Japan Socialist Party General Secretary Tsuruo Yamaguchi: "The Deceptiveness of Breaking Through the Defense-Spending Limit of 1 Percent of GNP"]

[Text] The Object of the Current Fiscal Year's Budget is to Break Through the Limit of 1 Percent of GNP

America's national defense report for the current fiscal year suggests that "it is Prime Minister Nakasone's obligation to break through the 1-percent limit," and I think that herein lies the most important factor behind the breaking this time of the 1-percent limit. That is, in the course of several Japanese-U.S. summit conferences Prime Minister Nakasone has ingratiated himself with President Reagan by saying that he would promote such concepts as the defense of sea lanes and blockading of the three straits, and has glorified the "close relationship of Ron and Yasu," and he has been forced to promise a strengthening of Japan's defense efforts as payment. He has been repeatedly urged to fulfill this promise in the course of Japanese-U.S. defense discussions and working-level discussions. And Prime Minister Nakasone too declared that he would promote the breaking of the 1-percent limit, making a speech at a seminar in Karuizawa in the summer of 1985 in which he said "The breaking of the 1-percent defense-spending limit is truly the right path for government. We must stride grandly along the right path for government." However, following that there were counterattacks against Prime Minister Nakasone by a group of party elders which included former prime ministers Fukuda and Miki and the last prime minister before Nakasone, Suzuki, and in response to that, criticism of Nakasone's way of doing things grew stronger even within the party. Of course, prior to that the opposition parties centered on the JSP, especially the JSP and the Komeito, had regarded the 1-percent limit, which the government itself had decided on, as the minimum brake in regard to defense spending, and had set forth a stance of not permitting it to be broken whatever the reason. That was the time of Chairman Ishibashi, and he made it clear that if it became a matter of breaking through the 1-percent limit our party would fight with serious determination, and in the Diet he repeatedly pressed the government to strictly observe the 1-percent limit.

At that time, according to a public opinion survey done by the mass media, a figure of 70 percent or more emerged for public opinion opposed to breaking through the limit. In such an environment, although Prime Minister Nakasone did once determine to break through the 1-percent limit, he was forced to abandon the idea by the conditions at that time.

That is the course which things have followed up to today, but this year pressure has begun to grow steadily stronger from beyond the sea to the effect that it is necessary to discharge what America's defense report calls "Prime Minister Nakasone's obligation" and to fulfill his promise. The problems of the abnormally strong yen and trade friction, especially trade friction with America, are also entwined, so pressure is on the Nakasone cabinet to show proof of increased efforts on defense. Since the seeds were sown by he himself, Prime Minister Nakasone has no choice but to accept unconditionally. Therefore, this year, at the very beginning he approached the compilation of the budget with the attitude that the 1-percent limit had been broken. In the midst of that Finance Minister Miyazawa stated that, considering such conditions as the strong yen and the drop in crude-oil prices, it was natural for the cost of defense spending to decline, so it is to be expected that defense spending would stay within the 1-percent limit. Speaking from common sense in the management of government finance, it is natural for this year's defense spending to stay within 1-percent of GNP.

Actually, defense spending is 3,517,400,000,000 yen, 1.004 percent of GNP. This exceeds 1 percent of GNP by a mere 13.4 billion yen. It got to this figure by the addition of 30 some billion yen to the Ministry of Finance's original proposal, but in terms of government finance it would be very easy to shave this excess off if an attempt were made. But from the very beginning the Nakasone cabinet has had no intention of shaving it off. To the contrary, it compiled the FY 1988 budget giving it the meaning of breaking through the 1-percent limit at any cost. That is, for the present, rather than concerning itself with the amount, it is giving it the meaning of attaining the political objective of eliminating the brake itself.

Actually, the government is doing a lot of expensive shopping for that purpose. The Japanese Self Defense Forces are brand-oriented, and want to gather together only products of the world's top-level brands with the best performance. I think it is probably the same whether one takes the F-15 or the P-3C.

In this sense the cabinet recklessly forced through the compilation of the budget in order to break through the 1-percent limit. Another thing is that in connection with Japanese-U.S. trade friction there was also pressure to buy a lot of U.S.-made brand-products, the newest weapons, so, assenting to that, a budget was compiled which breaks through the 1-percent limit; I think this is the real situation.

#### Violation of an Important Campaign Promise

As to the question of observing the 1-percent limit in the government and the Diet, in 1976, at the time of the Miki cabinet, the National Defense Program Outline was decided upon, and a policy was set forth to the effect that if

Japan were to devote itself to an exclusively defensive defense posture and make the necessary minimum preparation for war within the framework of the constitution, it would have to prepare the defensive strength indicated in the Program Outline. Up till then, in the form of the Second, Third and Fourth Defense Power Consolidation Plans, plans had been put together in a form like that of a working estimate just for the compilation of the Defense Agency budget, so budget requests had been made, and defense budgets compiled, in accordance with that. Each time one of these annual Defense Power Consolidation Plans was added, defense spending rose sharply in a form resembling a "multiplication game," so the public became extremely uneasy regarding that. In the form of parrying to some extent this uneasiness of the public, a cabinet resolution was made which established a limit for defense spending, saying "we will make it a goal not to exceed an amount equivalent to 1 percent of GNP." But after that, the JSP took the lead, and throughout debate in the Diet it pursued the matter from the position that "We are not saying that all will be well if you adhere to the 1-percent limit, but since the government has said that it will make a 1-percent limit its goal, it should adhere to it," and this resulted in it being explained as a clear government policy that it would be done in such a way that defense spending would not exceed 1 percent of GNP by even 1 yen, and would be done strictly within 1 percent. That followed on through the Miki cabinet, Fukuda cabinet, Ohira cabinet, Suzuki cabinet and on to the Nakasone cabinet. That is, due to the pursuit of the matter by the JSP, the initial cabinet resolution of a goal of 1-percent became a government explanation to the effect that defense spending would absolutely not exceed 1 percent, and has gradually become fixed.

But when it came to the Nakasone cabinet, the danger of aiming at breaking through the 1-percent limit began to grow stronger again. Prime Minister Nakasone is a person who from early on has been an outspoken advocate of revision of the constitution, as evidenced by his having created such things as "The Constitution Revision Song," and who from that standpoint has emphasized the necessity for rearmament and an arms buildup. Being on guard against this dangerous characteristic of Prime Minister Nakasone, at the opening of the Budget Committee the JSP pursued the question of whether the 1-percent limit would be adhered to, and in response to receiving vague answers it fought, bringing Diet deliberations to a halt; as a result, there continued repeated explanations in the manner of "we shall do our utmost to adhere to the 1-percent limit." Then the July simultaneous Upper and Lower House elections were held, and during this election campaign Prime Minister Nakasone did not utter a single word about breaking through the 1-percent limit. The prime minister declared: "I will never impose what is called a large, indirect tax, which is opposed by the public and the members of the LDP. Even if the Tax Commission were to make a report on a large, indirect tax, I will not adopt one," and he won the election. For him to do something he said he would not do, just because he won the election, is a grave violation of a campaign promise; at the same time, in regard to the question of the 1-percent limit for defense spending, there is no doubt that for him to suddenly make a big change after the election in what had been the policy of successive cabinets, without having uttered a single word about it during the election campaign, is also a violation of public commitment which cannot be overlooked.

At the time of the security-treaty struggle in 1960 the Kishi cabinet was in power, and this Kishi cabinet suddenly brought the revision of the security arrangement before the Diet immediately after an election. What became an issue at that time was that "In the national election immediately beforehand Prime Minister Kishi uttered not a single word of a campaign pledge to revise the security arrangement. To not even make a campaign pledge, and, moreover, to suddenly present to the Diet an important question which splits public opinion down the middle, runs counter to parliamentary democracy." Similarly, it must be said that for Prime Minister Nakasone to have said not a word of a campaign pledge concerning the 1-percent limit in the election this time, and, moreover, to have continued up to the immediately preceding Diet session to say "we shall do our utmost to adhere to the 1-percent limit," and then to break through it the moment the election was over, is truly a reckless act which denies parliamentary democratic government. The Japanese people render their judgment by looking at the election pledges of each party, so to do things which run counter to election pledges, or to "play foul" by concealing important issues by election pledges, will cause the loss of the people's feeling of trust in government. I think that if trust in government is lost, it will dig the grave of parliamentary democracy, and there will begin to arise even a danger of opening a path to fascism. In that sense, the breaking through of the 1-percent limit this time, in addition to being an extremely outrageous act by which Japan will become a major military power, is a reckless act which runs counter to the principles of parliamentary democratic government and fundamentally denies those principles, so we absolutely cannot permit it.

#### The "Total Amount Specification Method" Does Not Constitute a Brake

This time the cabinet resolution on the budget was made on 30 December of last year. The Ministry of Finance's rough draft was set forth on 26 December, so it means that during this interval compilation of the budget which breaks through the 1-percent limit for defense spending was carried out in a the space of only 5 days. Moreover, it overturns a Miki-cabinet resolution which has stood since 1976, so I think the Nakasone cabinet and the LDP wracked their brains a great deal in order to camouflage their dangerous aim. From within that was born a movement that "we must build a new brake." It is said that this was taken up as government policy, was decided on at the cabinet meeting of the 24th, and there was created what is called a "new brake" in the form of the "total amount specification method" which has been published in the newspapers.

But I think it is nothing like a brake, and that the significance of resolution of the Nakasone cabinet this time lay in eliminating the brake.

There are considered to be two kinds of so-called brakes: quantitative brakes and qualitative brakes. Within one segment of the LDP there was also the opinion that it must be a quantitative brake. But there was strong opinion and pressure from America and from the uniformed services of the Self Defense Forces to the effect that qualitative brakes were no good and that it should be kept strictly a qualitative brake. This is because a qualitative brake is nothing more than a passage of which the gist is "We will devote ourselves to an exclusively defensive defense posture. Japan will not become a major

military power. And we will not revise the midterm defense buildup plans periodically by the revolving method. We will not do a review every third year. The mid-term defense plan which has been decided on, the amount of 13.4 trillion yen, will not be changed. And it will be done within this limit, so there is nothing wrong with it, is there," so the concrete amount of the limit for defense spending ends up becoming vague. A particular problem is that there are no provisions whatsoever concerning FY 1991 onward. This means that beginning in 1991 they can do as they please, however much they wish to increase defense spending. This time's cabinet resolution is such that, however long and drawn out the text may be, there is no quantitative brake, so they can go on increasing defense spending to any amount at all depending upon the interpretation. In the end it changed the line of "giving priority to the economy rather than military affairs" and "Japan will go along with the light armament of an exclusively defensive defense posture" which successive LDP cabinets have chosen, and clearly decided to do away with all brakes in order to aim at becoming a major military power. I think that is the most outrageous thing about this time's cabinet resolution.

In conversation the chief cabinet secretary is saying such things as "we will respect the spirit of the resolution of the Miki cabinet," but he deceives by the word "spirit," and actually is leaving room to be able to increase it by any amount at all, so it must be characterized as a cabinet resolution which abolished the brake beyond doubt.

I think that the yen-rate at the time when the Miki cabinet made its resolution was well over 200 yen [literally 200 and several tens of yen] to the dollar. Lately, due to a drastically strong yen, the yen-rate has been in an abnormal state in which it broke through the 160-yen-to-the-dollar level, and for a time broke through the 150-yen level and entered the 140-yen level. Consequently, even if one is talking about the same 1-percent limit, by an international comparison it is a great increase in amount, even if one views it only in terms of the influence of the strong yen. The FY 1987 budget is compiled based on a rate of 163 yen to the dollar. But at present the yen is 7 or 8 percent higher than that. That is, the basis of the FY 1987 budget has crumbled. We are demanding that the budget should be recompiled, retracting the budget which has such unjust content as introduction of the large indirect tax called a sales tax, which violates an election pledge, and abolition of the system of tax exemption for savings. At the same time, I think the same sort of thing can be said concerning this yen-rate.

Japan is buying in abundance weapons of the highest level in the world. Aside from America, only Japan and Israel possess the F-15 for example. Furthermore, we are equipping with the world's most extravagant weapons by also making the life of such things as submarines and aircraft very short, rapidly changing into new models by frequently purchasing new ones. For front line equipment we are assembling only new items of top brands. Furthermore, we are doing installment payment by which the initial budget sets up only the down payments and the rest is the burden of later fiscal years, so, due to the installment payment, it is possible that the 3.5 trillion yen level of the current fiscal year will increase steadily in the next fiscal year and the fiscal year after that. Moreover, the price of crude oil has dropped, so it is possible to economize on fuel costs too, and imported arms can be purchased

cheaper to the extent that the yen is strong, so it should be possible to economize by any amount at all if the cabinet has a mind to do so. I think that the fact that it ventured not to do so, but compiled such a budget and made this time's cabinet resolution, is unforgivable from the standpoint of taxpayers. Therefore, in regard to the debate on armament, putting aside the question of whether or not one adopts the JSP's standpoint of unarmed neutrality, viewed even from the standpoint of the taxpayer, it must be said that pure waste is enormous.

#### A Three-Item Set With the Sales Tax and a National Secrets Law

I think there are two more problems.

One is the question of what becomes of military expenditure when converted to dollars due to the fact that the yen has become strong. It is said that world military expenditure will rise to approximately \$900 billion; within that, according to the message on the defense budget for the current fiscal year, America will be about \$350 billion, and I think the Soviet Union too be an amount close to that, and the next will come out in the order England, France and West Germany.

Incidentally, when planning military expenditure, the method which the nations of the EC are employing for calculating military expenditure is said to include in its calculations the budget for the Maritime Safety Agency and expenses related to military pensions, and when one adopts that method of calculation, Japan has come to the same point as West Germany. Another matter which must be heeded is that England and France too, not to mention the Soviet Union and America, are nuclear powers. Therefore, when one considers the problem that this is a military budget of approximately the same amount as that of a nuclear power, and, moreover, that this time the brake was eliminated while foreseeing future economic growth, there is a danger that Japan will outstrip the military expenditure of France and England in the near future. So there is the problem of possessing a higher military budget than that of a nuclear power, and now the three non-nuclear principles are about to be distorted into 2.5 principles. There is suspicion that the introduction of nuclear weapons might actually be being carried out.

Considering such matters, I think that even speaking from the budgeted amount, in Japan's present military expenditure there have become more and more conspicuous the characteristics of a military budget which poses a very great danger of ignoring the peace constitution and rendering the three non-nuclear principles devoid of substance.

Another is its relationship to the sales tax. When we look at the history of the sales tax, it is clear that the EC-type value-added tax has become the model. The course by which the EC-type value-added tax was introduced is that first Germany and France introduced a transaction tax which was to become the basis for the sales tax. This happened during World War I in the second decade of this century. It is an indisputable fact that this was a tax for the sake of raising money for the war. Moreover, prices rose because of it. Normally, the public would also express criticism, but since it was in the middle of a war, goods were in very short supply, and there was a climate in



which people were grateful to be able to buy things even if a 10 percent tax was added, so, outwardly at least, such a tax was implemented without any resistance.

It was in the middle of World War II that England introduced the same kind of tax. I think that this, too, was a similar situation.

After World War II the EC-type value-added tax came into being based on this transaction tax. The British tax-rate at that time was 10 percent. As might be expected, the Labor Government thought of the public and lowered it to 8 percent, but now, under the Conservative Party's Thatcher government, it has become 15 percent.

In a similar form, whether one takes France or the other EC nations, what was introduced at a level of 10 percent has, in extreme cases, become a tax-rate exceeding 20 percent.

Therefore, there is concern over the fact that the present decision to break through the 1-percent limit was carried out in the same period as the creation of the sales tax. I think that, as Chairwoman Doi of the Central Executive Committee pointed out in her representative questioning [daihyo shitsumon], on one side the sales tax has become a means for military procurement in order to break through the 1-percent limit, eliminate all brakes on increased military expenditure, and go on pushing forward toward becoming a major military power.

In addition, there are moves within the LDP which seek to establish a national secrets law. This means it would surely cover one's eyes, mouth and ears, so that even if Japan expanded its armaments that secret would not leak out to foreign countries, and it seems to me that the essence of the Nakasone cabinet is seen in the fact that such things emerged as a three-item set.

#### The Important Struggle Outside the Diet

I have also said this in television debates, but the Ohira cabinet suffered a great defeat in an election because it said it would impose a general consumption tax, and as a result, a resolution has been passed in the Diet to the effect that a general consumption tax would not be adopted. The same is true of government speeches this time, and was true even of the television debates; both Takeshita and Gotoda have admitted that the sales tax is a general consumption tax. If that is so, it is contrary to the Diet resolution which rejected the introduction of a general consumption tax. We cannot acknowledge a budget which violates a campaign pledge and at the same time violates a Diet resolution; I would like to demand at the start of the Budget Committee meetings that that portion of the budget be withdrawn.

The Japan Democratic Socialist Party may take a slightly different stance, but for the JSP, the Komeito and the Social Democratic Federation collectively the problem of breaking through the 1-percent limit is also an important violation of a campaign promise; moreover, despite having said from beginning to end that it would adhere to the 1-percent limit as proof that Japan would not become a major military power, the Nakasone cabinet suddenly compiled a budget which exceeded 1 percent of GNP and made a cabinet resolution without brakes,

so this part too should be withdrawn. Unless it withdraws it, we plan to confront it from the strong position that from the standpoint also of the politics of parliamentary democracy, we cannot very well discuss the budget.

Consequently, I think that deliberations in the Budget Committee will be certain to come to a halt from the very beginning due to this problem. As to how long the state of stoppage will continue, it is still unclear, but in any case, we cannot permit a budget which ignores an election promise. We will press an intense battle to cause them to withdraw that part. Through this, we must face the battle with the determination to make this Diet session an historic session which will equal or exceed the security treaty Diet session of 1960 or the Lockheed Diet session of 1976.

I think the problem is that, in addition to the struggle in the Diet, the question of the extent to which the people of the nation rise up and the extent to which movements outside the Diet will arise will probably be major decisive factors. Therefore, one thing is a joint struggle on the part of the opposition parties; and in labor organizations too, I think there will be also mass gatherings in the form of the four labor organizations plus the Zenmin Rokyo [All Nippon Private Sector Labor Union Council], but at the same time it is a question of how many signatures we of the JSP can gather and how many mass gatherings we can organize on our own in local districts, or to what extent we can raise up combined independent activities of the party and the General Council of Trade Unions of Japan, or with the Federation of Independent Unions and National Federation of Industrial Organizations which support the JSP, and with labor groups included in associations which strengthen the JSP.

Another thing is that there is the Central Council to Oppose the Sales Tax [uriagezei hantai chuo kyogikai] which is composed of 11 groups including the Japan Department Stores Association. We would like to go on striving to strengthen cooperation with such wide-ranging groups as the distribution industry, the trucking industry, all sorts of industries and consumer groups. Are not the question of how much of such a wide-ranging mass movement we can go on organizing, and at the same time, the question of how many opposition resolutions regional local autonomous bodies can raise and the question of how many opposition resolutions all sorts of groups can adopt vital?. There is also uneasiness among LDP Diet members. I think that if the voice of the anger of a wide range of the public of various classes goes on welling up, it will be possible to cause a large split to be produced even within the LDP. If such a thing comes about, can we not open also the prospect of being able to win in this struggle?

Battling with such an aim, it happens to coincide with this spring's unified autonomous-body election, so it must lead also to a battle for victory in the unified autonomous-body election.

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ECONOMIC

FINANCE MINISTER REPORTS ON 'STOPGAP' BUDGET

OW200629 Tokyo KYODO in English 0620 GMT 20 Mar 87

[Text] Tokyo, March 20 KYODO--The Finance Ministry has set the size of a proposed provisional budget covering the first 50 days of fiscal 1987 at around 8.8 trillion yen, including 1.8 trillion yen for public works projects, ministry officials said Friday.

Finance Minister Kiichi Miyazawa briefed his colleagues on the largest ever stopgap budget at a cabinet meeting earlier in the day, the officials said. The cabinet will formalize it at a meeting March 27, they added.

The Diet is expected to approve the measure March 31, the eve of fiscal 1987. Diet action on the 54.1 trillion yen full fiscal 1987 budget has been delayed due to a dispute on a controversial 5 percent sales tax the government plans to introduce next January.

A provisional budget usually only covers the minimum expenses necessary to keep the government going.

The fiscal 1987 version, however, contains public works appropriations covering 30 percent of the total amount budgeted for the year to shore up economic activity which has been hard hit by the impact on exports of the yen's rapid appreciation.

Miyazawa told reporters after the cabinet meeting the government will hammer out a package of pump-priming measures in late May after Diet passage of the full budget.

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## ECONOMIC

### INDUSTRIAL TRENDS IN VARIOUS SECTORS VIEWED

Tokyo KEIDANREN SHUHO in Japanese 4 Dec 86 pp 11-14

[Text] I. Automobile Manufacturing [Japan Automobile Manufacturers' Association, Planning and Research Head Kagawa]

Domestic sales of 4-wheeled vehicles numbered 1,397,000 in April-June and 1,359,000 in July-September. That was an increase of 7.7 percent and 2.7 percent respectively over the same periods in 1985, a rather high rate of growth. It greatly exceeds the original outlook for Fy 1986 of 1 percent, and was a result of the following: an increase in the demand for passenger cars following the change to a 3-year auto inspection system (July 1983), which for two years running (1984-85) caused demand to plummet; an increase in real income due to the stability of consumer prices; and a decrease in gasoline prices. In addition, each company has put effort into domestic sales. Looking at passenger cars and commercial vehicles (trucks and buses) separately, the growth in commercial vehicles greatly exceeded that of passenger cars, but this is due to the relatively high increase in demand for light, 4-wheeled trucks, which has shown continuous improvement.

However, in the latter half of 1986, when the high yen-rate is expected to have caused increased anxiety about the future, we cannot expect as much growth as in the first half of the year, and demand will probably slow considerably.

Exports of 4-wheeled vehicles were 1,873,000 in April-June, and 1,638,000 in July-September, an increase of 2.9 percent and a decrease of 2.6 percent, respectively, over the same periods in 1985. It was the first quarter in about three years in which exports decreased. If we look at the regions separately, a large-scale decline was already evident in South East Asia, the Middle East and Africa, due to recessions, a shortage of foreign exchange, a drop in the price of crude oil, and political instability, among other things. However, due to the high yen-rate and the effects of export restrictions, exports to the U.S. and Europe, areas which had been strong, are also beginning to slow. This was shown in the decline in July-September.

As for the latter half of 1986, since this trend in the U.S. and Europe is expected to get progressively stronger, and since we cannot expect a rapid recovery in the other regions, there is a strong possibility that as a whole FY 1986 will amount to a "minus" relative to 1985.

Reflecting the above trends in domestic demand and export demand, production levels of 4-wheeled vehicles were 3,137,000 in April-June and 2,991,000 in July-September, a decrease of 0.8 percent and an increase of 2.0 percent respectively, over the same periods in 1985. The second half of 1986 is also expected to be quite bleak, due to the fall in the growth of domestic car sales and stagnation in the quantity of exports.

Meanwhile, as for 2-wheeled vehicles, in the first half of 1986 there was a 9.3 percent decrease (compared to the same period in 1985) in the quantity of domestic shipping due to penalties involving the compulsory wearing of helmets on mopeds. Because of the strong yen and a slump in overseas demand, there was a 38.7 percent decrease in exports. Reflecting the above, production was down 25 percent, so that an across-the-board decline is apparent. Things do not look very bright for the second half of the year, either.

## II. Machinery [The Japan Machinery Federation, Vice-President of Business Affairs Yamana]

The outlook for the machinery production level for 1986 was 66.5779 trillion yen, down 2.5 percent from 1985 and actually the lowest level in the 11 years since 1975.

Looking at demand conditions surrounding machinery in 1986, there is a recent conspicuous tendency for private plant and equipment investment, which has been on the increase since 1984, to become sluggish. The reasons for the unusual sluggishness of the manufacturing industries are: a deterioration of the business performance of those export industries which have played a lead role in investing in equipment (electronics machinery, general machinery, and precision machinery) due to the export slump, and a decrease in their export competitiveness due to the high yen-rate. Also, [Enterprises] are refraining from greater investment in domestic production in order to augment overseas production capacity to avoid trade friction. Another factor is the general slump in the manufacturing industries, and the fact that the automotive industry does not seem to have the strength it once had. On the other hand, the non-manufacturing industries like electricity, gas, and construction, are mostly in good condition, and they are supporting current plant and equipment investment. In the forecast, research and development in new fields is still active, and renewed and rationalized investment is firm. However, private sector demand for machinery (except for shipping and electricity) which is one future indication of private investment in equipment continues in a downward trend. (Economic Planning Office) In addition, with regard to the equipment investment programs coming from various quarters, particularly in manufacturing, with each new program a downward revision appears. There are many uncertain factors, and the outcome is unpredictable.

As for personal consumption, wage rates increased by 4.6 percent after this spring's labor offensive, and the summer bonus increased by 2.1 percent over last year (Ministry of Labor statistics for major companies); both are lower than last year. Furthermore, there was a significant reduction in the number of nonscheduled working hours, and employment earnings were limited to a low rise. Still, prices remain stable, and it seems that a moderate recovery will continue.

On the other hand, exports mainly to the U.S.--are stagnant. Since September of last year the yen-based export level has been lower than the previous year. Moreover, as the months go by the rate of decline gets even greater. In addition, regardless of the cheap dollar the U.S. economy--which hold the key--is supporting a huge deficit, and with the business slump getting stronger, etc., as yet there is no signs of a recovery. Also, some trade friction remains, and because this time the high yen-rate is not temporary but has assumed a long-term aspect, it seems that export conditions will continue to be rather bleak.

Similarly, in Japan's economy in FY 1986 there is no hope for exports, and not much can be expected from private plant and equipment, so there is considerable investment concern about what the future will bring. Consequently, aiming to expand domestic demand and prop up the business situation on 19 September the government set forth a comprehensive economic policy with a total budget of 3.636 trillion yen. Its eight provisions include an increase in public investment and promotion of housing construction and plant and equipment investment. As an anticyclical measure, this represents Japan's greatest effort ever, and, as the recession worsens, [these measures] may bear fruit, but it seems that it will take some time before it will have an effect on demand in the machinery industry. Reflecting the results of recent surveys, the production forecast is lower this year than last.

### III. Industrial Machinery [Japan Society of Industrial Machinery Manufacturers, Survey Department Head Tanaka]

Looking at recent orders received for industrial machinery, foreign demand continues to decrease because of the deterioration of circumstances abroad due to the suddenly high yen-rate and falling oil prices. In September, orders received were 91.7 percent what they were last September, and the impact is deepening with time. As a result, total orders received during the first nine months of this year (1986) were well below last year's level.

As for trends in orders received between April and September 1986 broken down by demand sector, although of private-sector manufacturing industries, paper/pulp and the machinery industries were up over last year, all other categories were worse than last year, with the effects of a 26.5 percent drop in the chemical industry and a 19.2 percent drop in the steel industry, as a whole demand dropped by 12.5 percent. Add to this the reduction in foreign demand for plants and the loss of exchange attributable to the suddenly high yen rate. The level for 1986 was 62.6 percent that of

1985, and as a whole the trend worsened. On the other hand, because of a favorable change in demand for garbage disposal equipment and other environmental equipment, government and public demand rose 29.1 percent over the same period last year.

As for the different types of machinery, orders received increased over the period from April- September 1986 for only two types: mining machinery (by a mere 1.1 percent) and miscellaneous machinery (by 6.3 percent). Of the other important categories, the 39.9 decrease for boiler motors and the 25.5 decrease for engineering and construction machinery were conspicuous.

Looking at quarterly plant export contract trends, because of the decrease in international competitiveness due to the high yen rate and the subsequent deterioration of the economic situation in the Middle East due to the drastic fall in the price of crude oil and other primary products, since October-December 1985 the situation has seen a 50 percent reduction compared to the previous year. In July-September 1986 there was a drastic fall of 81.1 percent. Furthermore, as for the ratio of domestic to foreign procurement of plants, in August for the first time procurement was greater abroad than at home, a salient example of the deindustrialization phenomenon. It seems this trend will continue.

Demand for environmental equipment, on the other hand, showed a favorable change, mainly from local public entities. Looking at the breakdown on orders for special equipment between April and September, air pollution control equipment saw a 40.1 percent rise, water pollution control equipment saw an 11.5 percent rise, and garbage disposal equipment saw a 10.9 percent rise over last year, bringing the total rise for environmental equipment to 16.0 percent.

#### IV. Machine Tools [Japan Machine Tool Builders' Association, Survey Division Head Kawashima]

This year the volume of demand for machine tools has continued to decline. Following this trend on a quarterly time frame, the rate of growth (compared with the same periods last year) was down 8 percent from January-March, down 26 percent from April-June, and down 29 percent from July-September. If anything, the rate of decline has recently been growing rapidly.

Looking at this trend for each of the principal demand industries, demand for electrical and precision machinery was down 30-40 percent last year, and demand for general and automobile machinery is declining at the same pace of 30-40 percent this year (1986). This is probably due to restraints placed on investment in equipment by domestic export industries (automobiles, general machinery, etc.) because of the drastically high yen rate. On the other hand, because foreign demand from Europe and other places was relatively favorable, the rate of decline of domestic demand ended up greatly exceeding the rate of decline of foreign demand.

The transition toward negative growth in the volume of demand for machine tools began in October-December of 1985. Because this coincides exactly with the period last fall when the yen started to rise, the present slump is apt to be seen as a direct result of the high yen rate. However, the volume of orders had already begun to show signs of decline. Therefore, as for the current market trend for machine tools, we must see that the effects of the high yen rate followed upon an already low volume of orders, and that the slump is not due simply to cyclical fluctuations; in addition, structural changes due to the high yen-rate are accumulating. I think we must acknowledge this as an unprecedentedly severe downturn.

Reflecting this bleak state of affairs, all indications for machine tools show a tendency toward decline. Accordingly, in business circles there is a sense of crisis regarding this downturn, and the following measures have been recommended:

1. Curtail overtime.
  2. Reduce salaries of staff and management.
  3. Employment adjustment through voluntary retirement and assignments to subsidiary companies.
  4. Applications for employment adjustment subsidies.
  5. Cooperation among different industrial classifications.
  6. Develop new products.
- Nonetheless, the account balance for September 1986 will probably be bleak.

In addition, if you look at the various macroeconomic indicators published recently, few of the forecasts are bright. Particularly for manufacturing industries, a demand industry for machine tools, the situation is bleak all around: Plant and equipment investment plans have been drastically reduced recently; absolutely nothing can be expected from domestic demand at home; and even exports, which until now has been a means of escape from bad times, is at this point in a crisis due to the high yen rate.

Therefore, we estimate that the volume of orders for 1986 will turn out to be approximately 25 percent lower than for 1985. We do not expect the situation to improve very much in 1987, on the contrary, if trade friction causes quantitative restraints to be imposed, 1987 may be even worse than 1986.

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## ECONOMIC

### MPT'S SETTLEMENT OF AUTO TELEPHONE WAR CRITICIZED

Tokyo ZAIKAI in Japanese Mar 87 pp 26-27

[Text] The problem of entry into the automobile telephone market, which has been a source of controversy since summer last year, has at long last been settled. According to this settlement, Teleway Japan Corporation (TJC) will be entrusted with the capital and central regions of Japan, while Daini Denden will have the region of Kinki and westward.

Judging from the structure of the automobile telephone market, anywhere from just above 70 percent to just below 80 percent of the market will go to TJC, a resolution which cannot be called completely equitable. People say the steamrolling influence of the Toyota Motor Company lies behind this proposal, unfair to any observer. Some also say that the Ministry of Posts and Telecommunications has extended a service to Toyota regarding second KDD (Kokusai Denshin Denwa) Company businesses. Criticism of the telecommunications administration of the Ministry of Posts and Telecommunications is inevitable. Automobile telephones are at present a monopoly of the Nippon Telegraph and Telephone Corporation (NTT). (NTT).

There are now 80,000 cars in the automobile telephone market. Over the past several years, the yearly growth rate in the size of this market has continued to be high, close to 20 percent.

Furthermore, at the Market Oriented Sector Selective (MOSS) conference on the telecommunications market, the United States requested that Japan open up its automobile telephone market.

Following these events, last August the Ministry of Posts and Telecommunications worked out a market liberalization policy for automobile telephones which would include systems other than the heretofore existing NTT systems

At this occasion, the ones who announced their entry into the car phone market were TJC, centered around Japan Highway Public Corporation and other companies and Daini Denden, centered around venture corporations such as the Kyocera Corporation and Secom.

Both companies are new telegraph and telephone enterprises in rivalry with NTT over telephones and in other areas. Their intention is also to compete in the field of automobile telephones.

#### Collapsed Plan of Unification

In response, the Ministry of Posts and Telecommunications has promised a policy of unified operations. It claimed that, "given the demand for car telephones, it is pointless to recognize two companies besides NTT. The ministry will only recognize one." Both companies were fundamentally in agreement regarding unification talks, and there was a serious exchange of views.

However, TJC uses the new NTT system for its car telephones while Dai Ni DenDen uses the Motorola system, and the joint venture plan failed because neither side would give in on this fundamental issue.

With such a background, the MPT worked out a formula based on the apportionment of radio frequencies for use by automobile telephones. The [MPT] formula is a method by which the two companies can share their allotted radio frequency band.

However, according to this formula, in contrast to the allocation of the 15 MHz with which NTT has already been operating, the other two companies together would get only 10 MHz. But because they split their designated frequency range, each company would end up with only 5 MHz, making them unable to compete with NTT.

So this is why what came up as a final proposal was the allocation of regions. It was a proposal by which the Japanese archipelago would be divided into east and west and each region would be assigned one company.

Both companies consented to this arrangement. Both also insisted on "operation in the capital area," but at the final stage proposed a compromise plan according to which "we would accept the Ministry of Posts and Telecommunications' proposal if they were to recognize the areas outside of the capital region and those west of Nagoya as our market district," and it looked like this is what would be settled on.

Based on common knowledge, if one were to divide Japan into east and west, it would seem most natural to divide it with the prefecture of Shizuoka at the boundary. Even if one were to receive approval of the Chugoku and Kinki regions from Nagoya on westward, it would be overwhelmingly more profitable to choose the capital areas.

One could say that relinquishing the overwhelmingly more lucrative marketplace around the capital was Daini Denden's greatest concession.

However, the final proposal indicated that Daini Denden would be moved even further towards Nagoya than the point designated in the compromise

plan. This is furthermore a kind of settlement inconceivable to members of the industrial world.

With the following words, the MPT denied having had any effect on the settlement: "As a ministry, not once did we undertake any adjustment. Both companies made independent decisions during negotiations. And both sides agreed. As a matter of course, we accept their conclusions."

However, the concerned groups vehemently deny this. Certainly the plan from the Ministry of Posts and Telecommunications was not set before the negotiating parties in the form of a formal proposal, but in fact the adjustment proposal was shown them many times. Finally a settlement was worked out with the partitioning of Japan into east and west.

At that time, common sense dictated that Nagoya be included in the west. However, in the end Nagoya reverted to the east.

Plans for Second KDDs also in the Works.

In March of 1986 the number of automobiles with car telephones in the capital area was 32,000, in Nagoya 4,000, in Kinki 15,000, and in Hiroshima, Okayama, and Fukuoka it totaled 2,500.

Based on these figures, TJC would get 36,000 car telephones, while Daini Denden would get 18,000 even if Nagoya were to have been included in Daini Denden's share, the company would still have been at a disadvantage, but even Nagoya was taken away by TJC.

Many persons concerned point out that the reason why such an unfair solution was arrived at was that Toyota Motor Company, a large shareholder of TJC's, emphasized that Nagoya is its birthplace, and strongly insisted upon TJC's operation in Nagoya.

Yet, such an inexplicably unfair proposal cannot be explained away this simply, and many feel that, to get a chance to unify the second KDD, the MPT extended a favor to the Toyota Motor Company.

Toyota Motor Company with C. Itoh and Company, the British telecommunications company C&W (Cable and Wireless), and others with the aim of engaging in a second KDD line of business established International Digital Communications (IDC). The latter is in rivalry with TJC, which is a company established by Mitsubishi Corporation, Mitsui and Company, and others also with the aim of doing the same kind of business engaged in by a second KDD.

Because the fundamental policy of the MPT is to recognize only one company as a second KDD, it is continuing the effort to unite IDC and TJC.

Moreover, the MPT does not approve of C&W's participation as major stockholder of IDC. It is even being said that whether the unification process will proceed smoothly or not depends on how well C&W can be persuaded to comply with the MPT'S policy.

Saying that the MPT did Toyota a favor with respect to car telephones by letting Toyota have its say, in order to get Toyota to convince C&W to abide by the ministry's policy regarding the second KDD unification problem, might be hitting the nail right on the head.

Needless to say, the Ministry of Posts and Telecommunications flatly denies anything of the kind.

Claiming, "because much of DainiDenden's service is directed towards small towns, they must surely have given such matters careful consideration," the MPT points out furthermore, that the settlement reached on this occasion cannot be thought of as unjust.

However, young officials at the Ministry of Posts and Telecommunications have expressed strong counterarguments against the methodology used this time. Members of industrial circles are also speaking out strongly saying, "Because they can get away with such unfairness, we can no longer trust the MPT."

Those who are less kind say, "Even if the MPT is flattered by being called a government policy making branch, it is after all but a third rate agency. Those are its true colors."

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## ECONOMIC

### MOVES TO RESTRUCTURE THE AUTOMOBILE INDUSTRY DISCUSSED

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[Text] The automobile industry which has been the mainstay of the Japanese economy now has dark clouds on its horizon. Exports which have been a source of earnings have been slowed considerably by the continued high yen, and even Toyota Motor Corporation, which has been one of Japan's most profitable companies, is having a hard time. Meanwhile, in the domestic market where red ink continues to flow under stiffening competition, individual company's losses have snowballed and a solution to the crisis has become a pressing need.

This is why the third restructuring of the automotive industry, a drama revolving around Nissan, Honda, Mazda, Mitsubishi, etc., has been unfolding behind the scenes. All eyes are watching since this is certain to have an influence on all Japanese industry.

#### The Mystery of the Mazda-Mitsubishi Cooperation

Last August, in response to reports of a "Mazda-Mitsubishi cooperation," Eiji Toyoda, president of Toyota, commented: "I think it is a natural development. Only sooner than expected." An official in the Ministry of International Trade and Industry avoided to go into the detail with the ambiguous statement: "Reports have been heard, but since it is a matter involving parties with overseas capitals, this office has no reason to say one way or the other." However, in response to reports of cooperation between the two companies, Mitsubishi took a position of "no comment," whereas Mazda denied it, saying: The details haven't been worked out." According to an unnamed company executive who explained this was not so much a denial as a case in which Mazda "had no choice but to answer in this way."

"The talk on cooperation started about a year ago. Mitsubishi initiated by asking us to consider a joint strategy, since, as things stood, we would be at a disadvantage in future competition (in prices and marketing). Mitsubishi proposed to start with joint purchase of parts and joint production. As a result, we came to a basic agreement to have business-tie-up to an extent not to interfere with each other's management right. Since both companies have been having a hard time due to the higher yen since the beginning of the year, the negotiations made progress. Recently, we decided to make the cooperation one step further and started final negotiations. As our talks were revealed, however, obstacles came out."

According to this same executive, in the beginning of September, the details of their cooperation were to be finalized into a contract and an announcement would be made at a downtown hotel in Tokyo. Preparations were made to do this. However, in response to reports from some pushy members of the mass media they were stopped.

The greatest obstacle concerned the intentions of the United States' Ford Motor Company, which is a major Mazda shareholder. The second obstacle was the opposition of the Matsuda Family (the family of the original head of the company--the founder), a large individual shareholder, and some members of the board of directors.

When Ford, the United States' number two automaker, formed its capital affiliation with Mazda, it acquired approximately 25 percent of Mazda's common stock, became the primary stockholder, and placed their directors on Mazda's board. Likewise, the United States number three automaker, Chrysler, has capital affiliation with Mitsubishi and owns nearly 25 percent of its stock. However, Chrysler, which underwent a management crisis itself several years ago, lost the desire to lead or control Mitsubishi and it has now a policy of not interfering with Mitsubishi's management as long as it obtains a certain share of dividends.

Ford differs in this. They often try to exert managerial control over even such things as Mazda's capital expansion in the United States, overseas production, etc. They have actually devised a strict system of checks on various types of management planning. Because of this, the Mazda chief has reported to Ford in regards to their cooperation with Mitsubishi that "As things are, with the Yen highly valued, management cannot help but fail. We need to reduce production cost through joint purchase of parts." And he has obtained Ford's approval.

However, with the Yen's value continuing to rise with unusual speed, business has been slowing and the battle for sales in the domestic market has become more intense. Dampened sales of Mazda automobiles have become commonplace, and "when they do sell, their red ink only increases." (an industry executive). On these points Mitsubishi is in the same situation, and ultimately, both companies began searching for a way for a full-scale cooperation as a single group, with cooperation on parts as a first step.

Aside from the joint production of parts, they decided on a contract with the following main points: 1) Mazda would strengthen its battle for sales in western Japan; 2) Mitsubishi in eastern Japan, with both firms rationalizing by adjusting the lines of automobiles that they produce; 3) in the future they would produce a jointly developed automobile; 4) both companies would gradually broaden the scope of their cooperation in the production and sales areas.

#### Ford Company Voices Opposition

However, Ford voiced its opposition as it killed the plan. They stopped it saying, "Initial reports indicated only the joint acquisition of parts, but

according to information from Japan, it is said that cooperation will become much broader in the future. There are problems with this."

If it were only cooperation on some parts, it would be o.k. with both Ford and the Matsuda family, but with total cooperation, they fear everything "will eventually be swallowed up by the Mitsubishi leadership."

Although Mitsubishi Motor Company started as a subsidiary of Mitsubishi Heavy Industries, it is a powerful enterprise in the respected greater Mitsubishi group. Japan's largest industrial group is behind it. Ford and the Matsuda Family thought this cooperation might be dangerous. For the same reason that the plan to consolidate Mitsubishi and Daiichi Banks fell through, a restructuring of the automobile industry has been stopped.

Furthermore, if under Mitsubishi leadership Mazda falls under control of the Mitsubishi Group, Chrysler, which has a capital affiliation with Mitsubishi, would have no trouble absorbing Mazda's technology, etc. This bothered Chrysler's rival, Ford. Difficulties arose here and thus Mazda rejected the cooperation proposal. However, it is not true that the plan for cooperation have totally disappeared. At present both companies are secretly searching for the next step, while they are enjoying the results of the joint acquisition of parts.

The reason is that the present-day automotive industrial world is not so easy and an individual company cannot succeed independently unless considering business affiliation and capital relationships. This is because the business climate has become so harsh that individual enterprises cannot survive without the rational employment of business strategies as seen in the case of Isuzu Motor Company (a GM affiliate) and Fuji Heavy Industries (a Nissan affiliate) which agreed to have a joint plant in the United States.

This is obvious after looking at a table giving market shares for the various automotive manufacturers for January through August of this year (mini cars are excluded here). According to this, excluding Toyota, the leader (42.6 percent), the other four of the top five makers, Nissan (25.3 percent) Mazda (7.8 percent), Honda (7.4 percent), and Mitsubishi (5.8 percent) are all fighting a tough battle under market share stagnation. As to the share trends since last summer, competition has become more and more intense with the drop in exports and a state of all-out business war has developed. Thus, looking at the number of new vehicle registrations for August, aside from Toyota which increased 5.2 percent over the same period last year, the others showed large declines; Nissan had a 7.3 percent decrease, Mazda a 1.4 percent decrease and Honda especially had a 13.6 percent decrease.

Furthermore, although the dark clouds are thickening in the lower tier with Isuzu (2.3 percent decline), Daihatsu (11.7 percent decline), Fuji Heavy Industries (10.1 percent decline) and Hino (3.7 percent decline), the observation of those people familiar with the automobile industry is that "things are all the darker for Honda which has had a unique strategy of its own." Along with Mazda it has an export rate of 70 to 80 percent and when problems arise in its overseas markets, its risky nature as an enterprise becomes a

problem. Thus, under last year's recession caused by the strong Yen, it appears that its weak spots have been exposed all at once.

The domestic sales strength of both Mazda and Honda has always been weak. Furthermore, the principal strength of Mazda has been light-weight automobiles and Honda's has been motorcycles. Consequently, it is only natural that their sales strengths in passenger cars would be weak. To compensate for this, they have looked to penetrating markets overseas. In order to assure sales in overseas markets, Honda, especially, has started a new phase by moving rapidly to attempt production in the United States.

#### The Shock of the Unexpectedly Higher Yen

The situation has changed under last year's highly-valued Yen and automobile exports do not make much profit.

From the beginning it has been common knowledge that only one company, Toyota, has been profitable in the domestic market. The other companies have generally lost money on the domestic market and have covered their deficits through exports. The typical cases are the pattern for both Mazda and Honda. Toyota's last statement showed a 25 percent decrease in profits, poor figures unseen in the recent past. Because it was Toyota, they could limit the decrease to this much. For Mazda and Honda, such a blow is inestimably serious.

With its special design development or technical development strengths, Honda previously surpassed other Japanese automakers in many fields. However, today, Honda's developmental strengths have begun to become weak and this has started to result in lower vehicle sales. Honda's August decline in domestic sales was the biggest among major makers and in the all-out domestic sales war, Honda's weak sales power is coming to surface. As a result, their future is so dark that it is said that "without unique cars being developed, their decline is the natural result." (An executive of a rival maker.)

However, as the highly-valued Yen becomes a permanent fixture, the circumstances make a return to the cheap Yen unimaginable. If this is true then the future looks dim for Honda whose domestic sales have declined greatly for the three months of July, August and September. It is not without reason that one could say that Honda, which has gone its own independent way up to now as a leader of the national capitals, has an increasingly greater chance of being caught up in the whirlwind of restructuring.

Indeed, although Honda is facing difficulties of various technological problems, it has many brilliant young engineers and is still an attractive company. Honda's way of thinking is also unique. It is only natural that not only domestic makers but GM as well may try to have a tie with Honda.

Honda once before discussed cooperation with Mitsubishi Motor, which was also in the group of the same bank. The Ministry of International Trade and Industry tried to consolidate auto companies under two Japanese capitals of Toyota and Nissan. Mitsubishi, which was excluded from this, attempted to affiliate with Honda to form a third power.



At this time Honda said, "we will not surrender to the domestic makers. If worst comes to worst, we will seek assistance from GM. We have been approached by them. Until we are driven to the wall, we will not lower our flag of independence." This was about 20 years ago when Soichiro Honda was company president. Mitsubishi, which accepted Honda's rejection, had to move to affiliate with the United States' Chrysler in order to compete with Toyota and Nissan.

Thereafter we entered the era of the first automobile industry restructuring, beginning with Mazda-Ford and Isuzu-GM, followed by Toyota-Daihatsu and Hino and Nissan-Fuji Heavy Industries. Faced with the prospect of not surviving, many auto companies did lower their flags of independence. Eventually the independent national factions entered the three-company era with Toyota, Nissan and Honda. However, in the late 1970's we entered the era of the second automobile industry restructuring where Toyota-GM, Nissan-West Germany's VW, etc., cooperated on parts while remaining mutually independent. With this a map of the automobile industry market would seem to have stabilized.

However, in the early 1980's, the Japanese domestic market was confronted by the greater than expected recession caused by the highly-valued Yen. This meant that we had gone beyond cooperation within groups and had entered the third restructuring period, "the era of vertical and horizontal alliances for survival." First was the Fuji Heavy Industry-Isuzu cooperation formed for expansion into the United States, and then came the second act, the Mitsubishi-Mazda cooperation drama. It has been an era which could be called a repercussion of the second restructuring, and in which ties that were once bound have come undone. The bonds of cooperation will probably be retied with more suitable partners. However, in the opening act of this drama, the situation is in the automobile industry more serious than ever before and the Japanese government intends to attempt to actively intervene, as in the first restructuring.

This is because in this drama of the restructuring of the national capital companies, except Toyota, Nissan and Honda have been really hurt and their management bases have become unstable. As a national policy, the government cannot ignore the situation. As is common knowledge, automobile-related industries employ about 20 percent of all employed workers and its total output is 20 percent of all mining and manufacturing industries. It is really Japan's largest strategic core industry. These are the reasons that the government cannot help but intervene to protect these three national capital companies and to ensure their growth.

#### MITI View of Two Large National Capitals

Coming directly to the point, the government, centered on the Ministry of International Trade and Industry, has now once again begun to draw up "discussions on consolidating into two large national capitals." Toyota has consolidated its group and has now stabilized its strength as second in the world. It is not at all concerned. On the other hand, Nissan and Honda are in trouble. Accordingly, the blue print that the government authorities are drawing up is a plan for the cooperation and integration of Nissan and Honda. By doing so, MITI intends to let the Nissan-Honda group compete with Toyota and thereby make both stronger.

At present Toyota's market share is 42-43 percent and with things as they are, this is likely to increase to 50 percent in the coming year. It has been becoming similar to the U.S. market with GM holding 50 percent, Ford 30 percent, and Chrysler 17 percent. Actually Nissan may be said to be in a weaker position than Ford is in the United States. Because of this, problems will surely arise because Toyota is likely to become stronger and stronger.

On the other hand, although Honda has excelled as a national capital hero, if conditions decline as they have, there is a possibility of its looking for foreign capital. This would be a great minus for the Japanese automobile industry and ultimately for all Japanese industry. Thus MITI thinks Honda should affiliate with Nissan now on an equal basis while their wounds are still shallow and thus form a strong group which can compete with Toyota--this is the second large national capital scheme which the Ministry of International Trade and Industry and government officials are thinking.

Although these concepts are almost the same as those in the second large national capital scheme which the government drew up in the late 1960's, the differences between this and the previous one is the attempt to merge with the vulnerable Honda in order to bolster Nissan which has weakened and is ailing in comparison to Toyota. The idea is that a strong business group to the mutual benefit of both could be formed by making the most of the special characteristics of both companies. Nissan has strength in sales but has problems in technology and developmental power. Certainly there is no mistaking the fact that the consolidation of the two companies would form a strong group rivalling Toyota. However, problems remain as to whether or not Honda will participate in the Ministry of International Trade and Industry's proposal.

This is because if Honda does affiliate with Nissan, it will lose its independence. Because of this, it is said that it has been searching for a partner to affiliate, with whom it could maintain its leadership; that is to say with Suzuki, Mazda, etc. However, Mazda may go for cooperation with Mitsubishi and Suzuki, while continuing to plan its takeover of Yamaha, depending on circumstances, still maintains a possibility of full-scale capital affiliation with the Isuzu-GM alliance. For both Mazda and Suzuki a merger with Honda would be extremely difficult.

Should this come, there is a good possibility that Honda will knock on the door of GM for which they have always had the greatest respect.

In this case, Isuzu, Suzuki and Honda, three makers of very different types of automobiles, would be moving toward their overall merger under GM. How will the Ministry of International Trade and Industry proceed with the Nissan-Honda consolidation in order to prevent this from occurring? This is the biggest question in the future.

The government has thought for a long time that at least two national capital automobile makers were necessary in Japan. Of these the government feels Toyota will continue to grow as an international business. However, at present problems are arising at Nissan. They must strengthen and further develop it.

This is because strengthening of the automobile industry which has become Japan's largest core industry has come to play an important role in the growth and preservation of other industries. This includes iron and steel, electronics, chemicals, machinery, parts, and material industry such as glass. All industries have a very great dependency on the automobile industry. If the automobile industry goes into decline, these other influential industries will also suffer a decline and the Japanese economy would be in a great pinch. This is made clear by the fact that the United States' economy is supported by its oil and automobile industries. Its importance as an industry is incalculable.

This is the reason why the government, beginning with the Ministry of International Trade and Industry, cannot help but be diligent in the restructuring of the automobile industry.

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